

Public Utilities

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Is the Municipal Plant a Social Phenomenon?

A New Approach to an Old Problem

In two areas of the country have the seeds of city ownership of power companies found their most fertile soil—on the Pacific Coast and in the Middle West. Had this development been due to purely economic conditions? Or to political agitation? Or to technological considerations? Or may it be traced to an attitude toward "property rights" which has been inculcated in sections where land grants have given birth to a radical concept of the rights of individual property owners?

By FRANCIS X. WELCH

TAKE a map of the United States. Next, take a list of all municipal electric plants functioning in cities of a population over 10,000. Now take some red-top pins and stick one into each city on the map that is served by a municipal plant. Next, take some blue-top pins and stick one into each city which has a population in excess of 10,000 and which is served by a privately owned plant.

All this is quite a task and you probably will not do it. But if you did do it, you would find that the

government ownership movement is not sporadic but, on the other hand, highly contagious.

Let us take a bird's-eye view of the municipal ownership situation as disclosed by our completed map of the United States with red and blue pins on it.

FIRST of all, we discover that the majority of the municipal plants are west of the Mississippi and Ohio rivers, notwithstanding the fact that 70 per cent of the population of the

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United States resides east of the Mississippi.

Looking further, we find two definite congested areas of red pins; the first is in the shape of a circle with its center in Indiana and spreading out over the neighboring states of Ohio, Illinois, Iowa, Nebraska, Missouri, Kansas, and north as far as Michigan and Wisconsin. This might be called the Middle West group.

There is another definite group; it is in the form of a belt and covers our entire West coast from the California-Mexican border to the far-famed plant in Seattle, Washington. In California alone, there are five municipal plants serving cities of over 20,000 population. Of course, there are many important isolated plants in such states as Florida, Georgia, and Texas. There is a small but static group in Massachusetts and Connecticut; but we cannot help forming the impression, after looking at the map with the red pins in it, that the government ownership movement is contagious.

The blue pins merely serve to balance our impression of the comparative popularity of private *versus* municipally owned plants in each state by showing up, to some extent at least, the relative concentration of population.

BUT," you say, "what about all this nonsense with maps and red and blue pins? Assuming that the government ownership movement is contagious and not sporadic, what does that demonstrate? Simply showing that a problem is a red problem and not a blue problem has never solved a problem itself."

Not so fast. One half of the success of medical treatment, as any doctor will testify, depends upon an accurate diagnosis. One of the troubles with the electrical industry, in its efforts to combat the government ownership movement so far, appears to be a lack of fundamental diagnosis. It is the purpose of this article to point out a line of investigation that might lead to an illuminating diagnosis of the contagious government-ownership movement. The article will attempt to take the government-ownership advocate apart—to look inside of his head and determine what makes him act that way.

THE first step in the medical diagnosis of a sudden plague is to discover whether it is endemic or epidemic.

An endemic disease is peculiar to particular localities or to particular classes of people; hence, it may be inferred, it proceeds from localized causes.

An epidemic disease is both sudden and widespread, respecting neither class nor locality.

When a disease is endemic but also contagious, health authorities usually seek first of all for some way of making the untainted areas immune and in this way to check the spread of the plague. This is done by studying the local conditions which first gave rise to the plague. These conditions are frequently found by the process of elimination. Factors which are common to both the tainted and untainted areas are stricken off until there remains to be considered only factors which are not common. Among these uncommon factors usu-

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ally lies the trouble area or storm center.

(Let it be understood here that just because this reasoning is largely by analogy, it is not the intention to characterize the government-ownership movement as either a disease or a plague. This article is neither an attack nor a defense of government ownership of utilities on its merits; it is merely a study of the underlying factors which give rise to the government-ownership movement as it is today in the United States.)

WE see from our map that the two definite red areas are the middle western "whorl" of municipal plants and the Pacific Coast "belt." Now let us seek the common denominator. A little reflection on the subject will lead us to put down a list of possible common causes for the government-ownership movement, and then we can strike from the list where the proposed factor fails to affect both areas. Here is a tentative list which this writer has composed as possible causes for a radical state of mind, leading off with the least likely:

1. Religion.
2. Race.
3. Sparse population.
4. Mismanagement by private utilities.

5. Higher rates by private utilities.
6. Natural geographical operating advantages.
7. Traditional respect for property rights.

WE can eliminate the first two items with a single stroke, for we find the relatively higher Protestant population of the Pacific Coast just as radical as the Middle Western area where there is a larger proportion of Catholics and Jews.¹ Likewise we find the Germans and Swedes of Wisconsin equally as ardent advocates of government ownership as the basic Irish stock of Indiana and Ohio. There is a heavier Scandinavian strain in Washington and Oregon than there is in California, but all three states are blessed in equal proportion with "red-pin" sentiment.

The conclusion is inescapable: race and religion have nothing to do with it.

Item No. 3 must also be stricken off. The population throughout the states of Ohio, Indiana, Michigan, and Illinois is much more concentrated than in the states of Oregon, Washington, or Nebraska, yet apparently

¹ AUTHOR'S NOTE: The only reason that the factor of religion is mentioned at all is because certain encyclicals of the Popes have been interpreted by some as indicating that the Roman Catholic Church is opposed to government ownership.



THE Easterner or Southerner would object to the violation of another man's, or corporation's, property rights. The latter instinctively feels that if a neighbor happens to prosper from his property he is entitled to all the fruits of his good fortune, even though this neighbor is an electric company. But the recipient of free (western) lands and other political bounties feels that somehow the more fortunate recipients ought to share the fruits of their good fortune with less fortunate neighbors."

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the city dwellers in the former states share radical sentiment with their rural brothers in the latter states in equal proportion, if our red-pin map tells a true story.

Item No. 4 requires more delicate handling. There is no doubt but that a considerable number of private electric companies have not always had the advantage of inspired, enlightened, or altruistic management. But the holding company abuses and other sins of commission and omission that have been testified to before the Federal Trade Commission seem to have been committed in the East, through New England and in the South considerably more than on the Coast or Middle West. This is a matter of opinion, of course—an opinion that can only be reached after wading through pages and pages of Federal Trade Commission testimony. It seems fairly safe to say, in any event, that the West Coast and Middle West fared no worse than the East and South.

ITEM No. 5—involving the charging of excessive rates for service by public utility companies—seems a far more plausible reason for the government-ownership sentiment than any of the other reasons so far considered. But the record does not bear out the hypothesis. If high rates were the principal reason for people in a certain locality to be anxious to put their municipal governments in the utility business, we would expect that the record would show higher rates charged by private utilities in these sections than charged in the more conservative states.

Of course, in considering this item,

we must not lose sight of the effect of competition by publicly owned plants upon privately owned operations. In many cases private companies will attempt temporarily to meet the rates of the public plants, if they are low, once such competition becomes actually established. A rate war sometimes ensues and so the general level of rates is lowered in that area for a time. But over a considerable period and a considerable area, the reverse would have to be true. If rates have anything to do with the matter, people would not get more dissatisfied with private company rates in some states than in others where such rates were not, generally speaking, higher in some states than in others.

Here is a list of the average price per kilowatt hour charged by electric utilities for domestic service alone in the various sections of the United States, according to United States Census figures from 1927:

New England	8.0 cents
Middle Atlantic	7.4 "
East North Central	6.2 "
West North Central	7.3 "
South Atlantic	7.0 "
East South Central	7.9 "
West South Central	8.3 "
Mountain	6.2 "
Pacific	4.4 "

We see from this table that rates are higher in the New England and Southern Atlantic areas where the government-ownership movement has been very mild, than in North Central and Pacific areas. Obviously, therefore, excessive rates could not have driven the Middlewestern and West Coast consumers to government ownership, while their brothers in the East and South remained unaffected by even higher rates.

Why Government Ownership Projects Flourish Best in the Western Land-Grant Areas

"I*f they (the recipients of free land) cannot cut down these utility corporations' profits, they can do better than that. They can put the corporations out of business, take over the business themselves, and share the profits. The politicians show them how—and are rewarded with election. Result: strong government-ownership sentiment."*



THE reason for the exceptionally low rate on the Pacific Coast is due undoubtedly to the availability of cheaper hydroelectric energy. And this leads us to our sixth possible explanation: natural geographical operating advantages.

Stated succinctly, the proposition is this:

Is the fact that certain natural advantages in the production of electric power exist in one section of the country and not in another, a possible explanation for a large number of governmentally owned plants in one place as compared with another?

It has been frequently said, with approximate accuracy, that 70 per cent of the potential hydroelectric power sites of the United States lie west of the Mississippi, while 70 per cent of the power demand lie east of the Mississippi. Accordingly, we find that our West Coast "belt" of publicly owned plants is in the heart of the big water-power area. The municipal plants at Tacoma and many of those of California have been brought into existence because the people, conscious of nature's lavish gifts upon their respective communi-

ties, felt that they should preserve these gifts for their children as community property and prevent, if possible, their alienation for private profit by private corporations.

Oregon has lagged heretofore in exhibiting this sentiment, but during the last two years she has made up for lost time. Legislation adverse to private ownership has been abundant in Oregon, and so today we find that all three West Coast states run a very high red-pin fever; and we also find that these three states embrace a respective portion of the total hydro-power resources of the entire country.

Is there any connection between these phenomena? Or is it a coincidence? Let us turn to the mid-western whorl. Water power through this section is not so abundant. The state of Maine in the east and two or three states in the south (excluding the famous Muscle Shoals project) have far better "hydro" advantages than the Middle West. So the logical conclusion would be that geographical advantage may be a contributing reason, but that it is not a controlling reason for the red-pin clusters.

People on the West Coast have been

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told so often about the God-given advantages of their native states that they have become quite water-power conscious. Former Governor Oswald West, of Oregon, calls it "political hydrophobia." This superconsciousness of water power tends to make the people very suspicious of private companies who would exploit their treasured power sites, and they become very susceptible to politically inspired anti-power trust campaigns. Result: anti-utility legislation and intense government-ownership sentiment.

FROM our six possible causes that we have so far considered, only one, therefore, has shown results, and that only as a contributing factor. Let us now consider the last item—traditional respect for property rights. What does it mean?

First of all, we must remember that the purpose of our investigation is to find some general underlying reason for government-ownership sentiment in particular localities. It is an intangible thing we are looking for—a psychological reason. We know that the West Coaster thinks differently about utility service compared with the Easterner. Why? It may be easy enough to go to individual communities and give particular causes for the establishment of particular public plants, and these specific localized explanations will be far more satisfactory than the general and abstract quantity we are searching for, but they will explain only the specific plant. It will not explain why large numbers of such plants should cluster in one area, while we observe that other areas have

just an isolated red pin here and there.

The recent anti-utility demonstration in Oregon, for instance, might very logically be assigned to the untiring efforts of the late state Senator Joseph. Seattle's public utility venture might be laid at the door of former Mayor Ole Olsen who distinguished himself by his zeal for government ownership. Doubtless, those familiar with local conditions would assign equally convincing specific reasons for specific public plants throughout California.

But why is it that Mayor Olsen and Senator Joseph, and all the California reasons, occur so close together, while large stretches of Southern states produce no Olsens or Josephs or others of their type? It is apparent that there is an underlying factor missing; that Olsen and Joseph were but flourishing flowers of a well-tilled and agreeable soil—flowers that would, if transplanted to Maryland or Virginia, have languished and wilted unnoticed. Governor Ritchie, *vice versa*, is but the highest expression of the fundamental spirit of the highly individualistic people of Maryland. A Ritchie transplanted to Oregon would certainly not be elected governor on any ticket.

So let us continue our search for the intangible underlying factor. Let us consider item No. 7.

OUR history books tell us that the Atlantic seaboard was settled during the seventeenth and early eighteenth centuries by various English-speaking colonists, stretching from the *Mayflower* consignment in Massachusetts to Governor Oglethorpe's colony in Georgia. The

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Spaniards had settled Florida even earlier. For this reason, titles to real estate in many of the original states run back hundreds of years. Many Maryland farmers have deeds that go back to the first Lord Baltimore. Dartmouth College in New Hampshire traces its title directly to a grant from George III of the Revolutionary period.

This means that for approximately two centuries titles to property in the Eastern and Southern states has descended from father to son in successive generations, or else such property has been traded between citizens for substantial money consideration.

Two hundred years is a rather long stretch of time for the new world and during those six generations of guarded property rights there has grown up a strong tradition. Your Maryland and Virginia farmer is a supreme individualist. He has come to regard his land and his property as a sacred heritage, something that was hard to get, often hard to keep, and very expensive to buy more of. It immediately follows that he concedes the equity and necessity for equal rights and protection to his neighbor's property. The property right concept undoubtedly is stronger today in the Eastern and Southern states than anywhere else in America, and such statesmen as Governor Ritchie and Governor Pollard are

eloquent expressions of this native sentiment.

Now let us turn to the Midwest and to the West Coast. We find there that land was settled much later and that it was settled principally by free grants from the national government or by sales of modest price. As late as 1826, public lands were sold to individual settlers in Ohio for \$2 an acre! The Western states at that time had not really been scratched. On December 3, 1862, Congress passed the Homestead Act, the purpose of which was to encourage settlement of Western states by means of free grants of land from the government. Indiana, Ohio, Illinois, and Michigan had already been largely settled through the sale of land to the pioneers by the national government for very nominal sums. Now came the proposal to *give away the land*. The table on page 326, taken from "The History of Public Lands," by B. J. Hibbard, shows where these lands were given away under the Homestead Act from 1916 to 1923.

It will be readily observed that Eastern and Southern states are not in the list. As a matter of fact, the South has consistently opposed all free-land legislation. It went against the grain of these Southerners to see land passed out free. Their own traditional concept of inheritable property and property rights caused



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STATE	NUMBER OF ENTRIES	ACRES
Arizona	2,242	995,999.17
Arkansas	3	1,120.00
California	4,115	1,634,452.38
Colorado	12,135	4,603,827.59
Idaho	4,093	1,725,085.61
Kansas	198	54,130.51
Michigan	3	1,400.00
Montana	12,317	4,149,607.14
Nebraska	343	56,666.77
Nevada	381	203,371.72
New Mexico	17,027	7,272,850.54
North Dakota	624	189,034.32
Oklahoma	241	46,868.61
Oregon	5,387	2,114,177.73
South Dakota	6,084	2,061,164.17
Utah	1,614	856,090.02
Wyoming	1,178	366,960.18
Wyoming	23,057	9,333,175.83
GRAND TOTAL	91,042	35,665,982.29

them to squirm at such "socialism." If real property were held so lightly by these new settlers, the Southerners argued, personal property rights would receive little respect and the new states would develop a reckless citizenry who would care little for the rights of the individual property owner, rights that had always been held so sacred in the South.

The industrial East was not very enthusiastic about free land legislation. An editorial from *The Courier and Enquirer* (New York city) for June 4, 1852, is fairly typical. It stated:

"This whole question is argued on its merits not as a political, but as a philanthropic measure. The masses in the North and West are favorable to it, as naturally they should be, inasmuch as these sections embrace nine tenths of the needy population, for whose benefits the donations would be made. The South opposes the movement, and to our mind correctly denounces it as a fraud, and as a scheme that could proceed from no other source than demagogism itself."

Now, just what effect has the free land policy had upon the political psychology of the Western citizen of today? He received his land for nothing, or at least his father

before him did. It brought him a fair living for which he worked very hard. He has small respect for the value of real property. It came to him so cheaply. And now, that agricultural depression has bitten such states as Nebraska, Kansas, Iowa, and the Dakotas so severely, land property to the average farmer frequently means more of a liability than an asset—merely more acres upon which to raise crops that will not even pay for themselves.

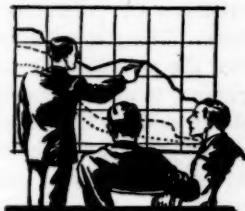
This disrespect for property rights results in his placing a correspondingly heavier emphasis upon human or social rights. He feels that the government which has taken care of him in the past, which brought him to the West with free acres and glowing promises, ought to go on taking care of him when economic conditions are such that he cannot take care of himself no matter how hard he works. He feels that the world owes him a living.

He looks around. He sees large corporations. They are making money; they have a great deal of property. Some of them are making money directly from him and his neighbors, such as the electric company to which he must pay from his meager cash funds, a fee each month for a service that has by now become necessary. It annoys him to see these corporations make so much money, while he can barely make ends meet by working from dawn to dusk. He thinks it is all wrong. The farming classes are entitled, at least, to share these profits.

It is in such soil that the seed of public ownership finds ready growth. The politicians find ready listeners.

The "Property Rights" of a Utility Corporation Are Various-ly Regarded in Different Sections

"CUT down utility profits," the land-grant farmers say. When told that the Constitution protects the utility's property rights, they are not impressed. Property rights? To them this merely means something that the government gave their fathers twenty years ago, and that turned out to be worth about what their fathers paid for it as far as earning capacity is concerned."



The Easterner or Southerner would object to the violation of another man's, or corporation's, property rights. The latter instinctively feels that if a neighbor happens to prosper from his property he is entitled to all the fruits of his good fortune, even though this neighbor is an electric company. But the recipient of free lands and other political bounties feels that somehow the more fortunate recipients ought to share the fruits of their good fortune with less fortunate neighbors. "Cut down utility profits," they say. When told that the Constitution protects the utility's property rights, they are not impressed. Property rights? To them this merely means something that the government gave their fathers twenty years ago, and that turned out to be worth about what their fathers paid for it as far as earning capacity is concerned. So they seek a short cut. If they cannot cut down these corporations' profits, they can do better than that. They can put the corporations out of business, take over the business themselves, and share the profits. The politicians show them how to do this

—and are rewarded with election.

Result: strong government-ownership sentiment.

DOES this analysis appear far-fetched? Perhaps it is; remember it is a very intangible quantity we are seeking. But let us test it this way:

Records show that every state *inside* the two red-pin areas was settled largely by free land grants of recent date. Nearly every state (omitting the sparsely populated Rocky Mountain and arid southwestern states) *outside* of the two red-pin areas was settled more than three generations ago, and in the most of them property titles were well established and of great monetary value at the time of the Revolution. Here then is a common denominator. Here is a possible explanation. Perhaps it is just a coincidence. More likely there is some connection.

THERE are other items that may be considered. The list here suggested was purely tentative, and if it has thrown open a new line of investigation to a very puzzling but

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important problem, the purpose of this article is achieved.

The red-pin method is admittedly a hit-or-miss demonstration of the existence of public ownership sentiment. There is evidence, for instance, that the public ownership spirit is beginning to die in some middle western states, notably Ohio and Indiana. But municipal plants established years ago in these states will continue to occupy the red-pin map. On the other hand, Oregon, while shy on red pins, probably possesses stronger government-ownership sentiment than any other state in the Union. From last reports, this trend was still going strong and from now on red pins will begin to appear in Oregon. There is another and more serious objection to the red-pin method. It is as follows:

A large number of municipal electric plants were established, not because the people preferred municipal ownership to private ownership, but because they could get electric service in no other way. Now, there is no practical way, at this date, in which information could be accurately obtained as to whether or not particular plants were established on the basis of choice or expediency. To offset this objection as much as possible the limitation of 10,000 population was adopted in the placing of the red pins. Obviously, a city of 50,000 could readily command capital to finance an electric plant. Therefore, if such a city erects its own plant it must be a matter of choice. This is probably true also of cities of 25,000. To make the analysis as comprehensive as possible, this survey has lowered the limit to 10,000. Perhaps it is too

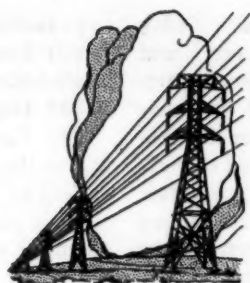
low. A second map using only cities of 20,000 does not reveal much difference in the comparative geographical alignment of the red pins.

We must concede, therefore, that the red-pin map is only a roughly approximate yardstick to measure the geographical location of radical sentiment. But it is the only handy yardstick we have, and after all it is close enough to the truth.

THE important point for utility companies to recognize is that government ownership will not flourish if the soil is not adapted to it. If they would analyze the reason why some soil supports the movement, and why other soil starves it, as has been attempted in this article, they might be nearer to the solution of the problem of how to prepare the soil. Perhaps an educational campaign designed to inculcate general respect for property rights may be one treatment. Perhaps some social concessions to the human rights insisted upon by our Western brothers may be another remedy.

But no real remedy will be found until a thorough analysis of the underlying psychological reasons for the political behavior of the government-ownership advocate has been accomplished. Utilities which merely fight individuals are wasting time and money. They may snip off the flow-ers of the red soil; they may succeed in disposing of a Norris, or a Joseph, or an Olsen. But the roots are still there, and more blooms will follow.

If a radical is to be converted at all, it will only be accomplished when it is known why he acts that way in the first place.



THE ECONOMIC IMPORTANCE OF BRINGING Current to the Countrymen

Rural electrification viewed as a major criterion of the success of commission regulation—and of the social character of the power industry.

By WILLIAM E. MOSHER AND FINLA G. CRAWFORD

THE expansion of the use of electricity has naturally followed the lines of least resistance. This applies to the early period, when electrical current was used exclusively for illuminating purposes and only in the most congested centers, to the present time, when the market has been extended to include the less congested districts as well as a great variety of commercial and industrial uses. The extreme zone is naturally the rural areas with a low density of population per square mile and with an undeveloped demand. In the main, this market offers at present one of the largest possibilities for development, both from the point of view of the companies with their interest in satisfactory returns, and of the economic and social well-being of a large class of consumers.

In view of the wide range of uses to which electricity may be put on the farms, whether for residential or in-

dustrial purposes, the development of this market is of great importance and a review of the policies and practices that have already been adopted, as well as of the ways and means of expediting further development, is sufficiently worth while to warrant detailed consideration.

THE story of rural electrification, (that is, apart from more or less haphazard extensions in the immediate neighborhood of large centers of population), did not begin until 1920 when a Rural Lines Committee was appointed by the National Electric Light Association and when, three years later, the committee on the Relation of Electricity to Agriculture was organized.

This latter committee began active work on August 1, 1923. It was set up as a result of conferences between representatives of the American Farm Bureau Association and the National

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Electrical Light Association. Today it includes nine organizations¹ and enjoys the coöperation of the Departments of Agriculture, and of Commerce and Interior. In order to function, the committee directed its efforts chiefly to the formation of state committees to organize investigations as to the possible uses of electricity on the farm. By 1928 special committees had been organized under the auspices of the central committee in twenty-four states and three years later this number had increased to twenty-six. The investigational work has been placed largely in the hands of the staffs of the agricultural colleges and experiment stations. These agencies have conducted demonstration projects, have made investigations as to the costs of electricity for various farm purposes, and have issued instructions as to farm wiring. The work of the committees has been invaluable in showing the farmer the savings which would result from electrical installations. They have influenced the farmer's wife to demand the household conveniences made possible through the use of current. At the same time, the possibilities of the rural market have encouraged the companies to take initial steps toward the development of a rate schedule which would stimulate the farmer to utilize central station service.

THERE are four available markets for electricity in the rural field:

¹American Farm Bureau Federation, Home Economics Association, American Society of Agricultural Engineering, General Federation of Womens Clubs, Individual Plant Manufacturers, National Association of Farm Equipment Manufacturers, National Electric Light Association, National Grange, National Electric Manufacturers Association.

- (1) Rural industries;
- (2) Domestic consumption in small settlements;
- (3) Highway lighting;
- (4) Farm use, both in the home and as the source of power in a wide variety of agricultural pursuits.

It is necessary to consider these potential markets in any analysis of the rural electrification situation.

(I) The possibility of applying electrical current to industrial uses is almost as unlimited in the rural as in the so-called industrial areas. By way of illustration we may refer to seasonal activities, such as cotton gins, pea vineries, canning factories, and cheese factories. The country store, the filling station, and the creamery consume considerable quantities throughout the year. Quarries and brick plants located outside industrial districts are large consumers of power as are the water systems installed through the creation of water districts. Electricity is used to provide the power for pumping, displacing the gasoline engine. In the West, the irrigation projects make use of electricity. This is particularly true of California. In this state a by-product of the demand for electricity by these projects was a more and more extensive use for all purposes in the rural areas.

If the decentralization of industry that is already apparent in certain localities gains headway, per capita consumption in the so-called rural districts will mount by leaps and bounds in the not distant future. Low rents and low labor costs together with cheap power and transportation are conspiring to drive all sorts of indus-

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trial plants into the open spaces of the country. It is safe to predict that this movement will become an important factor in the future program of rural electrification.

(2) The extension of central station service to the rural hamlets has not resulted in a high per capita consumption. In these communities the use has been almost entirely for domestic lighting as low economic standards have deterred consumers from purchasing electrical devices. The number of users of electricity in the so-called rural area is greatly increased by these connections but the average consumption is low.² In many instances the householder has difficulty in consuming enough current to equal the minimum monthly bill. As will be pointed out later, the small settlement does not offer a particularly fruitful field for electrical development. It should be looked upon as incidental to the expansion along other lines.

(3) Highway lighting, on the other hand, offers a promising opportunity for the use of electricity in the country. Up to the present this has not been systematically worked out in any state. It appears in a hap-

hazard way in the vicinity of large cities and on a few of the more important boulevards. A worth-while program will involve the lighting of the state highways by the state highway department and the lighting of the county roads by the county. The latter part of the program will prove to be more difficult because some of the poorer counties will balk at the additional burden on the tax budget.

Further investigation must be made, however, to determine: (1) whether lighting of these highways will result in a decrease in accidents and in crime, and (2) what is the most feasible method of financing such a policy.

One line of investigation is suggested by a study of all the traffic fatalities on the state roads of Indiana for the twelve months ending August 31, 1930. Thirty-seven per cent of the fatal accidents occurred during the day, 9 per cent during dusk, and 54 per cent after dark. As it is estimated that two thirds of the traffic occurs during the day, it may be concluded that one third of the traffic produces two thirds of the fatalities. The relative night hazard is, therefore, four times the day hazard. This investigation emphasizes the relation between darkness and the incidence of accidents. A further study lends support to this deduction.

² Bucknam, R. F., "An Economic Study of Farm Electrification in New York," (Ithaca, 1929).



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It was made by S. J. Williams, director of the National Safety Council and covered an analysis of fatality data from accidents in four states. He concludes that about thirty-five per cent of the night traffic accidents are directly or indirectly attributable to lack of illumination. These studies are not conclusive in themselves but they do point to the desirability of highway lighting.³

SUCH investigations should be supplemented by the compilation and comparison of accident records on roads that are already illuminated and on such as are not, where traffic conditions are otherwise comparable. Furthermore, similar records should be made and compared where different types of illumination are in use. Such comparisons would lead to conclusions both as to effectiveness and costs of installation and operation.

It is obvious that, if the above studies pointed to the desirability of a highway lighting policy, the problem of rural electrification would be greatly simplified. The illumination of the roads would make possible the distribution of the costs of installing new lines between public agencies and the farm consumers to the advantage of both; it would also improve the load factor and thus reduce the cost of energy to all concerned.

With regard to the financing of a comprehensive program of highway lighting it has been proposed that the expense of illuminating the main thoroughfares, at least, would be a proper charge against the income derived from the gasoline tax. If the

appalling rate of automobile accidents on the highways can be materially reduced through a program of this type it would be good economics to make the investment. At any rate, the investigations made thus far point to the wisdom of supplementary studies in the directions outlined above.

(4) The gasoline engine and a great variety of electrical appliances make possible the almost complete elimination of human labor in the calling which has been built up and maintained for so many centuries, largely through the physical labor of human beings and animals. A number of demonstrations have been worked out as to the variety of usages to which electrical current may be put. Reference to such reports as that of the Joint Committee for June 1931 indicate the type of special appliances that have been developed⁴ and the various services which are being performed with the aid of electricity in the farming industry.

Despite this wide range of the possible applications of electrical current to the farming industry a great majority of the farmers are nonconsumers, according to dependable estimates. The number of electrified farms increased in the 8-year period, 1923-1931, from 166,140 to 650,000. The possibilities are almost unlimited when it is considered that only 10 per cent of the total of 6,400,000 farms have been connected with central station service. Up to January 1930, the public utility companies had 24,702,000 customers of whom 82.8 per cent were residential. There are about

³ Kirk, M. Reid, "Street Lighting and Traffic Accidents," *Electrical World*, June 20, 1931.

⁴ Report on Farm Electrification Research, C. R. E. A. Bulletin, June 1931.

Rural Electrification as a Test of the Success of Commission Regulation

"RURAL electrification is a major public problem. It is a significant test of the quality and caliber of the commissions, representing the public interest, as well as of the sincerity of the protestations of utility executives who maintain that their corporations are public service institutions. . . . Rural electrification becomes thus a major criterion of the success of regulation and of the avowedly social character of the electrical industry."



9,000,000 homes not yet electrified of which nearly 6,000,000 are farm homes. These figures indicate the market for electricity yet to be developed. The advantage of this business has been brought home to the utility companies during the depression of 1930-31 when the rural lines have maintained their sales while industrial sales have fallen off.⁵ During the first six months of 1931, the decrease in farm use of electricity was 2 per cent as against a usual seasonal decline of 3 per cent. In other words, the farmer increased his use of electricity in the midst of world-wide depression.

In view of the above possibilities it may be categorically stated that the application of electric power to farming activities offers the largest undeveloped market for electricity.

THE problem of farm use may be divided into three parts: (A) cost of power including line extension charges; (B) cost of wiring buildings; and (C) the cost of the

equipment and appliances in use.

THE actual cost to provide a customer with electricity involves two items, namely, the service charge and the energy charge. In the earlier period the companies made the mistake of lumping these charges together and setting rate schedules at such a level that they would be assured of a satisfactory income under all circumstances. In fact, in many areas they demanded that the farmers should construct extensions at their own expense. Furthermore, they failed to appreciate that the farmer is potentially a small industrialist, not simply one more domestic consumer. Such a short-sighted policy tended to discourage rather than to encourage rural electrification.

The 1926 report of the Illinois committee condemns these practices in no uncertain terms. It goes on to outline the essential features of a farm rate as follows:⁶ (1) It should be

⁵ Lehman, E. W., and Kingsley, F. C., "Electric Power for the Farm," University of Illinois Agricultural Experiment Station, Bulletin No. 332, pp. 469-470.

⁶ U. S. Daily, August 12, 1931.

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fair and equitable alike to large and small consumers; (2) it should be easily understood; (3) it should encourage the use of electricity; (4) provision should be made for building of the line by the company or allowing the customer to finance lines as an optional plan.

Later the committee came to the conclusion that the company must build the line if the farmers were to be encouraged to make larger uses of electricity. The cost of equipment is so great that, if the farmer finances line construction, he is without funds to purchase equipment to make use of the service.⁷

A Wisconsin report stated that a just charge consists of two items:⁸ A monthly service charge to cover the fixed charges and a low rate for the current, so that rates will not hamper the liberal use of electrical power.

A writer in this field summarizes the rate problem for the rural areas as follows:

"Regardless of what form a rural rate may take, it must be designed for the purpose of building up the rural load rather than to give an immediate return. The most successful rural service rates now in effect are not yet returning all of the fixed charges but they are unquestionably successful in building up a load which will, in the near future, provide for a full return on the company's investment. It is almost axiomatic that a rural rate sufficiently high to be immediately profitable is too high to be successful as a load builder."⁹

FINANCING of the extension may be undertaken in four different ways, namely: (1) by the consumer; (2) jointly; (3) by the company; (4) by government aid.

⁷ *Ibid.*, p. 570.

⁸ Agricultural Experiment Station, University of Wisconsin, Annual Report, 1924-26, p. 7.

⁹ Van Derzee, G. W., "Rural Electric Service," October 1928, p. 6.

In the last analysis the consumer pays under all the plans mentioned although the burden may be spread over a shorter or longer period or over a smaller or larger group.

1. Consumer financing of line extensions came first. This policy was adopted for the most part by well-to-do owners who afterward allowed their less fortunate neighbors to make connections. After construction the lines usually became the property of the company and the farmer who financed the project had no option in the matter. What is more where this practice has been in force, the companies have capitalized the value of such lines and demanded a fair return on this value.¹⁰

2. Under the joint construction plan the company allowed the farmer to supply the poles, or to provide labor so as to cut the costs. In other cases he was required to pay in cash a portion of the cost of the line. In some instances this was returned, in others it was not.

According to several of the plans the company determines the amount which each farmer pays and provides for a return of the original investment over a period of years when the line begins to pay. By this arrangement the energy charge must be made high enough to produce an immediate profit so that the farmers' investment will be returned. In this way the farmer during the first few years pays for the line and then reimburses himself with the company acting as collector.

3. The method most generally adopted is company financing. This

¹⁰ Wisconsin Hydro-Electric Co. v. Railroad Commission (Wis.) P.U.R.1931C, 443.

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plan is an outgrowth of the earlier methods. As company executives came to appreciate the potential market among rural consumers they turned to less cautious and more far-sighted policies. Characteristic features are construction at the expense of the company, a guaranteed minimum return, and a rate structure that definitely encourages large-scale use.

These features have been incorporated in one form or another in the plans formulated either by the companies or the public service commissions or both in the following states: Virginia, Wisconsin, Pennsylvania, Vermont, Alabama, and New York.

THE so-called Adirondack Plan worked out in 1924 by the public service commission and the companies in New York state may serve as an illustration of more recent methods.

Under this plan the minimum charge for one customer per mile would be \$24. As the number of customers increase, the minimum charge is proportionately reduced. An energy charge is also made for the kilowatt hours actually used. If the energy charge does not equal the minimum charge the minimum charge must be paid. If it exceeds it, the energy charge is paid. The company builds the line and the farmer em-

plays his capital to buy equipment so that the use of electricity may be increased. In 90 per cent of the area of the state rates have been filed for the operation of the Adirondack Plan or some adaptation of it.

One of the most serious criticisms of the Adirondack Plan, as of many other plans, is to be found in the wide differences in the minimum charge per customer. This comes as a result of the varying number of customers per mile of line, and the construction of extensions on a piecemeal basis. It was found, for example, in a survey of a single township consisting of some 300 families, made under the auspices of the New York commission, that minimum charges varied from \$1 to \$6.30 and, moreover, that the lowest minimums were charged in small hamlets where utilization was on a very low level. Such conditions are illogical on their face and lead inevitably to widespread dissatisfaction. This has prompted the rural electrification division of the New York commission to consider the ways and means of working out a uniform minimum bill and also to stimulate electrification on an area rather than a haphazard, piecemeal basis.

MOST of the data on rural electrification have to do with



Q "VISION, planning, leadership, and the willingness to take risks are called for if rural electrification is to be brought about on a large scale. With an expanding market, almost at the very doors of the distributing companies, it is not surprising that they have failed on the whole to turn their attention to the more remote and relatively less profitable farmer market."

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statistics covering not alone the use of electricity on farms but also small towns and villages. It is but natural that the attention of the companies should be first directed to the development of the market where the population is more or less concentrated. Company executives have thus been guided by the number of users rather than maximum use and have failed to discriminate between rural electrification and farm electrification. This observation is borne out by the data summarized in the following paragraphs.

Computations made from statistics gathered by the Empire State Gas and Electric Association show that the average density of rural consumers per mile in New York remained constant at 17+ from 1926 to 1928. The density increased from 1928 to 1929 from 17+ to 19+. During these same periods, the average yearly use per customer in 1926 was 460 kilowatt hours, or 38 per month, while in 1928 it was 658 kilowatt hours or 55 per month. In 1929 the average yearly use decreased to 590 kilowatt hours, or 49+ per month.

These figures apply to practically all the rural lines of the state. The question naturally arises as to cause of these shifts.

LIGHT is thrown upon the problem by a study made in 1926 by R. F. Bucknam of the New York State College of Agriculture, now rural electrification expert for the New York Public Service Commission. In this survey, attention was directed to farm usage as distinguished from rural usage. It covered 335 farms in 50 counties of the state. The results

showed that the average yearly use on farms was 602 kilowatt hours, or 57+ per month.

From this group, 122 farms showed an average yearly use of 600 kilowatt hours, or 50 per month. Three years later these same 122 farms were again studied and the average yearly use was found to be 955 kilowatt hours, or 79+ per month.

These computations warrant the deduction that although the companies have increased the density per mile, the average use among the mixed classes of rural consumers has advanced but little while that among strictly farm customers has increased, in a marked degree. It is obviously desirable that all rural residents should be served, but the opportunity for larger and increasing consumption apparently lies with the farms. As stated above, they are in fact small industrialists and give promise of an expanding market. This suggests the conclusion that systematic efforts should be made to further extend lines to farms and to deal with the farm areas as such.

ONE of the most important features of area development is the possibility it offers of large scale construction of distributing lines with the savings incident upon mass purchasing of materials and with the use of such mechanical aids as hole-boring and pole-raising machinery. If we may accept as typical the results of an investigation made by J. H. Mathews, chief engineer of the Illinois Commerce Commission, it would appear that little progress had been made in the development of up-to-date, standard methods of line con-



Rural Electrification Requires Research and Planning

GENERALLY speaking, the flow of work determines the commissioners rather than that they determine the flow of work and the character of their own activities. One evidence of this is that they carry on little or no research work and little or no planning. . . . Rural electrification requires both."

struction. Taking the costs of such construction from six different companies, the expense per mile ranged from \$556 to \$1,893. Some companies add \$25 for office expense while others charge \$250. One company had an entry of \$300 for overheads and extras while the total labor costs amounted to \$139.¹¹ Although the different conditions under which construction is carried on will explain some variations from a norm, it is difficult to understand such wide discrepancies particularly in the matter of material costs and overhead expenses as are reported by Mr. Mathews.

A survey made by the Northwest Electric Light and Power Association goes to show that single-phase lines can be built for \$600 to \$800 per mile, inclusive of overhead,¹² while in

Ontario the over-all figure is \$1,021. For the eastern part of the United States the most commonly quoted figure is \$1,500.

The conclusion seems warranted that but little effort has been directed toward the adoption of standardized methods suited to the economical and systematic construction of rural lines on a large scale.

THE above illustrations indicate the problem and suggest the advisability of area development. Such a step would be a drastic departure but, under the existing conditions in New York as in other states, it is essential if farm electrification is to be extended. It is not proposed that all regions should be indiscriminately electrified. Obviously careful selection is needed in order to avoid electrification of areas which should be abandoned and reforested. Also provision should be made for the establishment of a minimum revenue per mile, which when reached would nul-

¹¹ Mathews, J. H., "Declares Rural Lines Cost too Much," *Electrical World*, Nov. 28, 1931.

¹² Crawford, M. T. "Rural Lines for \$500 per Mile," *Electrical World*, Oct. 17, 1931, p. 690 f.

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lify the line extension minimum and leave the consumers on a regular urban rate. The available evidence indicates that in the long run this plan would result in a profitable expansion of the market for current and the rendering of an important service to farm users.

The "area" is the most daring plan of rural electrification yet proposed. With nearly 6,000,000 potential rural customers, some scheme must be devised which will put electricity within fairly easy reach of most, if not all, possible consumers. At the same time, rural electrification must be so administered that it will ultimately, although perhaps not at the outset, finance itself. The area plan has the advantage of spreading the costs of line construction and in that way of reducing the service charge to be borne by each consumer of the given area.

The ultimate objective has been well stated by Maurice C. Burritt of the New York commission in the following words:

"I believe that the time has come when every economic farm unit, every reasonably located country home that desires it, is entitled to and should have electric central station power available at reasonable costs."¹³

AN alternate method of financing and stimulating the use of electricity in rural sections is through governmental aid. This is best illustrated on this side of the ocean by the Ontario plan.

As is well known, the provincial government has taken over the power industry as a public enterprise. The central agency of control is the

Hydro-Electric Power Commission. It has assumed the responsibility of providing electrical current to all potential users. In line with this policy it has mapped out the whole province and set up a number of rural power districts. Each of them is operated as a unit. An estimate of the probable cost of service is made at the beginning of the year and rates are based on this estimate. The commission acting as trustee cares for the balance or deficit.

IN the belief that cheap current for the farming population is in the interest of the public welfare, the provincial government gives assistance through a grant toward the initial capital investment up to 50 per cent of the cost of construction and secondary equipment. However, there is no differentiation between rural municipalities and urban municipalities. The rural power districts carry their full share of the costs of the collective undertaking. During 1930 additional assistance was given to rural customers by granting authority to the Hydro-Electric Power Commission to fix maximum rates and to charge deficits to the revenues of the province. A revolving fund of \$2,000,000 was set up to provide aid toward the installation of electric service, such as wiring of dwellings and other buildings and for transformers and other equipment.¹⁴ As a consequence rural electrification has gone and is going forward at a rapid pace. In the years 1923 to 1930 distribution lines increased from 600 to 6,796 miles and the number of con-

¹³ Burritt, M. C., "Farm Electrification Problems," Empire State Gas and Electric Association, Sept. 11, 1931.

¹⁴ Burritt, M. C., "Some Problems in Rural Electrification," Address before County Life Association, August 18, 1931.

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sumers from 4,200 to 47,859. The normal increase per year of small farm consumers is reported as in excess of 25 per cent, while the average consumption of this class approximates 100 kilowatt hours per month. About nine per cent of the farm users constitute a special class whose consumption ranges from 2,500 to 15,000 kilowatt hours per year.¹⁵ The Ontario policy in which central planning and government aid are combined has all but transformed the lives of farmers' families and greatly improved their economic status.

THE wiring of the farm buildings and the purchase of equipment in order to utilize electric power is a matter for each individual consumer. The companies are concerned because costs of wiring and equipment may prevent some potential consumers from utilizing the service. The work of the Joint Committees has been invaluable in demonstrating the savings to the farmer and in showing him that an investment in equipment will pay satisfactory returns.

The literature on this subject is voluminous. Up to June 1931, 211 investigations had been made of the use of electricity in agriculture and

650 projects had been undertaken to demonstrate its practicability. These studies deal with all sorts of uses from bee culture to water systems.

These studies emphasize further the desirability of safety as well as adequacy in wiring. It is urged that every job should have a certificate of inspection and approval from the National Board of Fire Underwriters.

THE cost of appliances deters many farmers from making the fullest possible use of electrical current. They invest their money in wiring the house and barn, but a financial return will not accrue until they can buy the necessary equipment. Among such are electric motors, milking machines, milk coolers, electric incubator, water system, electrically heated hot bed, feed grinder, water heaters, and other items. Not only are appliances needed for farming operations, but a considerable investment is required to purchase domestic appliances, such as washer, ironer, toaster, vacuum cleaner, and electric refrigerator.

In order to overcome this difficulty a number of utility companies sell these appliances on the instalment plan, thus spreading the cost over a period of time. Usually the farmer requires from one to three years before he is able to buy equipment which will enable him to use electricity in large quantities.

¹⁵ Gaby, F. A., "Economic Aspects of Electrical Supply in the House and on the Farm," *The Engineering Journal*, July 1930. Also personal communication from Arthur T. White of the engineering staff of the Hydro-Electric Power Commission.



Q "THE fact that nearly 6,000,000 farms of the United States have no access to cheap electrical energy bears witness to the lack of initiative and imagination on the part both of company executives and public service commissioners."

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In an address before the Empire State Gas and Electric Association, Commissioner M. C. Burritt of the New York commission proposed that local banks should finance the purchase of equipment and that these notes should be discounted by an intermediate credit bank. This suggestion comes from a realization of the needs of the farmers and the advantages which will accrue to both farmer and company if equipment can be made available.

THE fact that nearly 6,000,000 farms of the United States have no access to cheap electrical energy bears witness to the lack of initiative and imagination on the part both of company executives and public service commissioners.

Here is a great potential market. It is one, it is true, which does not promise immediate and large returns, nor will it develop more or less spontaneously of itself. Vision, planning, leadership, and the willingness to take risks are called for if rural electrification is to be brought about on a large scale. With an expanding market, almost at the very doors of the distributing companies, it is not surprising that they have failed on the whole to turn their attention to the more remote and relatively less profitable farmer market. It is but natural, therefore, that rural electrification to date is for the most part in areas adjoining population centers and even here on a kind of crazy-quilt basis. That time-honored policy of *laissez-faire* has held sway in this field as in so many other phases of business life.

IN the absence of an effective and insistent demand and of the in-

centive of immediate and satisfactory profits, the question may be raised as to why regulation has not served as a substitute for the customary economic motives centering about the development of the rural market. Although having due regard to the interest and initiative of the commissions of certain states, regulatory agencies have on the whole fallen far short of their responsibilities to that large and important segment of the public represented by farmers and their families. The indifference of the commissioners is chargeable to a variety of factors, not the least of which are the overwhelming pressure of routine work and totally inadequate staffing. Generally speaking, the flow of work determines the commissioners rather than that they determine the flow of work and the character of their own activities. One evidence of this is that they carry on little or no research work and little or no planning. As has been pointed out, rural electrification requires both. A comprehensive and satisfactory program will not just happen. Area development calls for foresight and careful calculation as to available sources of power, the most economical construction and financing of distribution lines on a wholesale regional basis, the determination of equitable rate schedules that will stimulate large utilization and, finally, as to practical methods of aiding farmers to finance their own wiring and equipment costs.

In recognition of the importance of the well-being of the farmers to the well-being of the nation, a comprehensive program may even involve some government aid in the form of

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revolving funds or possibly subsidies, as in Ontario. Incidentally, this policy might prove to be sounder economics and, at the same time, decidedly less socialistic and costly than seeking to stabilize wheat prices with public funds through large-scale purchases of wheat on the open market.

THESE proposals do not imply that electrical companies shall develop the rural market at a loss to themselves or at the expense of other consumers; that is, unless it be in the early period of promotion. Only such areas should be opened up which promise to yield satisfactory returns in the long run. By means of careful surveys of the potential market in a given region, by constructing lines for the whole region at one and the same time with consequent savings on labor, material costs, and overheads, and possibly by the use of cheap aluminum wire circuits and light poles in order to cut down the investment in transmission costs, it is believed that extensive areas could be served on an econom-

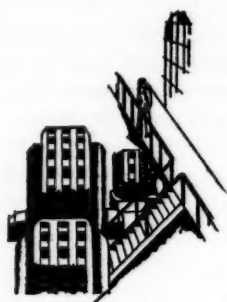
ical and a profitable basis. At least until experiments along these lines have been put to a practical test, it cannot be said that those responsible for the conduct of the electrical utility have really come to grips with the rural problem.

RURAL electrification is a major public problem. It is a significant test of the quality and caliber of the commissions, representing the public interest, as well as of the sincerity of the protestations of utility executives who maintain that their corporations are public service institutions. The former must stimulate and advise while the latter must plan and act boldly if the farmers' burden is to be lightened and his standard of living revolutionized through the free utilization of electrical energy, as has happened with that of the more fortunate city dwellers. Rural electrification becomes thus a major criterion of the success of regulation and of the avowedly social character of the electrical industry.



WANTED—A Plan for Regulating the Highway Carriers

In the coming issue of this magazine, WORTH ALLEN, chairman of the Public Utilities Commission of Colorado, will set forth the urgent need of controlling the hordes of motor trucks that are swarming over the public thoroughfares and invading the domain at the harassed but essential rail carriers. Out March 31st.



THE EFFECT ON THE STATE OF

Keeping Water Power at Home

*How Such Restrictive Measures Have Worked
in Maine and West Virginia*

Aside from the political and legal aspects of the controversy as to whether or not electric energy generated within a state should or should not be transmitted and sold across the state boundaries, what have been the practical results of the prohibitory laws where the experiment has been tried? Has the policy served—as was contemplated—to conserve power for domestic use, to the advantage of local industries? Has it proven beneficial to the local ratepayers? Has it attracted business to the states? The following article, written by a journalist who is neither a politician nor a lawyer, answers these questions from the viewpoint of the lay observer.

By HERBERT COREY

Two little old men stumped into the office of Governor George K. Nash in Columbus, Ohio. This was a long time ago. The period was stodgy, practical, and low minded. No new names had then been invented for idiots. No one believed the operations of nature could be impeded by a statute. Radicals got nowhere in politics because no bank would take their notes. One of the two little old men explained to Governor Nash that he was the exponent of a *New Law*.

"If you have faith no harm can come to you," said he. His eyes shone like a rabbit's under a searchlight. "It is *The Law*," said he.

"Looks like," said Governor Nash, "your partner has a broken arm. Maybe *The Law* doesn't always work."

"Sure it always works," said the first old man. "*The Law* is supreme. If you have faith, no harm can come to you."

"Looks like Brother Butts lacked faith," said Governor Nash.

"Not that at all," said the first old man, excitedly. "Brother Butts and I, we got perfect faith. Only up in Marysville yesterday the danged old fool fell off the depot platform."

Maybe that is not a very funny story now, but it seemed funny then. Our heads were harder. There were

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fewer loose notions in them. Men were being elected because they had marched with Sherman. Laws were either (a) laws that might work or (b) laws designed to shake down the railroads and breweries. The idea of canceling a debt so that the debtor might be made solvent enough to borrow again in the same place had not occurred to any one. A Congressman who would vote half a billion dollars to a Farm Board to play with in the wheat pit need never defend his sanity. He would never come home.

THESE episodes are recalled by a paragraph in the 1929 report of the public utilities commission of Maine. It has a softly reminiscent sound, that paragraph. Not a mite of uplift in it. Not a spoonful of pap. The commission stated that when taxes were raised on a public utility it was evidently necessary to permit a boost in the rates so that the public utility might see the raise. The town of Milo had assessed the Milo Water Company \$957 more than it had been taxed the previous year. The commission put the \$957 right back:

"An increase in rates is granted to provide for this additional operating expense."

There was something old-fashioned and comfortable in that paragraph. It spoke of bicycles built for two and a large stein for a nickel, with cheese. It recalled the days when no law-maker had discovered that the way to make a business pay was to strap it up in regulations. Professors were merely professors in those days and not *kommissars*.

But the glow faded as I read on.

I learned that Maine had also joined the march of progress. Like the state of West Virginia, Maine has a law forbidding the exportation of water-generated electric power.

The majority of the people of the state of Maine declared at the polls that this is a grand law. Only the minority insists that Brother Butts fell off the depot platform.

AT first glance this law forbidding the exportation of water-generated power pleased me. Why should the waters of the state of Maine chuckle down to the sea through turbines which manufactured power for the use of the people of some other state? Better, far better, that they should go chuckling idly on as most of them have always done. No defense is offered for this attitude, except that I have been sitting under the drippings of political sanctuaries so long that I am covered with tallow. When a high-minded orator begins to shake I shake right along with him. I was able to beat Governor Pinchot to the *tremolo* by a short head not long ago. Senator LaFollette and I cry together like little lost children.

After all, I am no more strong-minded than a majority of the voters of Maine, and it is known that Maine babies cut their teeth on granite blocks. The only confidence man who ever ventured into Maine had to telegraph twice for money to get out. The Maine farmers got the first money. Yet I am informed that the Fernald Act never did the work it was planned for. It became a law in 1909. It was reinforced by the Baxter amendment in 1921. It prohibited the exportation of water-made

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power across the state lines, on the theory that this would compel industries needing power to locate in the state of Maine.

And not only that.

It appears from the report of the Federal Power Commission that the Fernald Act, and other acts designed to restrict to a particular community the advantages to be gained from the natural resources having their origin in that community, clashes with the Federal Water Power Act. The commission states in part, in its most recent report, that:

"While there are many forceful reasons why the principle of states' rights, as far as they pertain to the governmental machinery, must be preserved, much less can be said for the application of this doctrine when it is advanced for the purpose of preserving to one group of the people some particular material advantage it may have by reason of the chance location within certain arbitrary boundaries originally fixed for purely governmental reasons. . . . The regulation of power is essentially and primarily economic and not political. The power industry today is neither exclusively local nor exclusively national. . . . It is the desire of this commission to act entirely free of the prejudices which have grown up around the subject of states' rights as a political issue and especially in the mutual confidence that there is to be no undue overreaching or usurpation of power. Such coöperation must recognize as its basic principle the real economic nature of the business with which it is dealing, that it

is local in some phases of its operation and national in other phases."

I am told that no industries have ever located in Maine because of this prohibition of the exportation of power.

I am told that industries have been kept away because the men responsible for these industries did not care to risk time and money in a state that would stand by that kind of a law.

Maine's potential water power is exceeded by only a few states. Only 40 per cent has been developed. I am told that the development has been only sufficient to care for the local needs and that large projects in contemplation have been abandoned.

IF these things are not true a rebuttal—fortified by names of plants brought to Maine because of the Fernald law—would be of real interest and value. The observation of the men interested is that industries locate where raw materials are readily available, labor costs are reasonable, and transportation facilities afford easy access to the markets. The factor of power is perhaps fourth in importance, for power may be created at the factory. So great an authority as Matthew Sloan of the New York



Q "It cannot be said that the provision in the 1915 law that the state (West Virginia) might regulate and control the distribution and sale of power has alone prevented development. The law contained other provisions which were intended to retard development and they have done so. Among such provisions were those requiring a licensee to be a domestic corporation and that its securities should be approved by the state and also a recapture provision very favorable to the state."

—I. WADE COFFMAN
CHAIRMAN, WEST VIRGINIA PUBLIC SERVICE COMMISSION

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Edison Company has stated that steam-generated power is no more costly than water-generated power. Governor Pinchot once attacked the cost of power generated at the great Conowingo Dam and sold in Philadelphia;

It is the long-distance transportation over costly rights of way and not the generation of water-made electric power that costs. Maine is not like any other state. It is long and wide, most of it is still covered with more or less primeval forests, and farming and consequently population is rather spotty. Wood and water are about the only raw materials for manufacture that Maine has to sell. The corporations which would have developed Maine's water power have been compelled to limit their investments by the needs of the home market. Because they have not been permitted to create the large plants which the exportation of power would have made necessary they have not been able to cut the costs of electricity to the extent which such large plants would have made possible. Electric current for domestic purposes is costly in Maine because of the long distances covered and the comparative paucity of the population.

THESE facts were submitted to the people of Maine at an election in 1929 and the proposition to change the Fernald law was defeated. Plans then in the making for the enlarging of present facilities and the building of new power plants were promptly dropped. It is true that after the Fernald law was upheld at the polls a large hydroelectric plant was built at Bangor, but I am told that the

plans had been drawn and the money arranged for two years before the election. The statements made to me are reinforced by this letter from Walter S. Wyman, president of the New England Public Service Company, with headquarters at Augusta:

"The New England Public Service Company in 1929 conducted a vigorous campaign to have repealed the law which prohibits the sale of hydroelectric power beyond the borders of the state.

"We spent a great deal of time and money in making the merits of the case plain to the people. We were defeated by a margin of 10 to 15 per cent. The political rumpus that was stirred up, the lies and quarter truths that were put out to our discredit, and the general misrepresentation of our motives were very distasteful and we decided after the campaign was over that we would not again initiate any effort to modify or repeal this law.

"The law was passed in 1909 and so far as we can see has not benefited the state in the slightest degree. During the first ten years it was on the books no one wanted to export any power. In the last ten years, however, the law has proved to be a decided detriment to the development of the state. It frequently happens that large quantities of electric power are wasted in Maine when just across the border in New Hampshire and Massachusetts steam plants are turning out a great deal more power.

"I have known intimately most of the cases where industries have moved into this state or where new industries have located here and have never yet known a case where the export power law had any influence whatever on the situation. On the other hand, I have known several cases where the fact that such a law is on our books was one of the straws that decided men in charge of corporate affairs against locating in this state. They believe that this law, together with other political developments, indicates so great a degree of disregard for business interests that they were not willing to submit their property to the laws of the state."

IT may be, of course, that when the majority of the people of Maine voted to uphold the Fernald law they were not in fact thinking about that law at all. Some of my informants in Maine explain that the people lost

How the Fernald Law for Preventing the Exportation of Power in Maine, Has Affected Industry:

"I HAVE known several cases where the fact that such a law is on our books was one of the straws that decided men in charge of corporate affairs against locating in this state. They believe that this law, together with other political developments, indicates so great a degree of disregard for business interests that they were not willing to submit their property to the laws of the state."

—WALTER S. WYMAN
PRESIDENT, NEW ENGLAND
PUBLIC SERVICE COMPANY



their tempers a little in that election. A number of old troubles bobbed up for settlement and the actual issue was forgotten because so much fighting was going on in the brush. My informants say, too, that the management of the interests opposed to the Fernald law was distinguished by its belligerence. These things may be true and they may not be. The essential point is that the people of Maine held fast to the Fernald law and that no power is being exported from Maine.

THE situation in West Virginia is somewhat different, but the case against the wisdom of laws forbidding the exportation of power seems equally strong. In that state, however, it appears that the prohibitory statute was not the only handicap upon the development of the state's water wealth, but that other means of hampering progress were also found. That statement is clearly made by Judge I. Wade Coffman, chairman of the public service com-

mission. In 1915 the West Virginia legislature enacted a law giving the state the authority to regulate and control the distribution and sale of hydroelectric power to the extent that it may require that such power be "distributed, sold, and used in the state." In 1929 another law was enacted containing a somewhat less drastic provision. This law has been held unconstitutional because it jumbled legislative, judicial, and executive powers. It is an open question whether the 1915 law is now in effect, since the 1929 law with a repealer was thrown out.

Neither in Maine nor in West Virginia has the underlying authority of the state to regulate and control its water power been attacked in court. In response to a query Judge I. Wade Coffman, chairman of the public service commission of West Virginia, stated:

"West Virginia's experience in the matter of hydroelectric development has not been a happy one from the standpoint of securing the conservation of water power. The \$8,000,000 New-Kanawha Power Com-

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pany project is the sole project of any magnitude for which a license has been sought under the 1915 law.

"We depend very largely upon steam-electric power, on the distribution and transportation of which there are no restrictions.

"It cannot be said that the provision in the 1915 law that the state might regulate and control the distribution and sale of power has alone prevented development. The law contained other provisions which were intended to retard development and they have done so. Among such provisions were those requiring a licensee to be a domestic corporation and that its securities should be approved by the state and also a recapture provision very favorable to the state."

Meanwhile all that good water in West Virginia and Maine has been running away, year after year, without doing a nickel's worth of work.

Maybe I see these things wrong. But it does occur to me that in both states Brother Butts fell off the depot platform.

WISCONSIN and New Hampshire have laws which in effect compel public utility companies to give preference to consumers in the state and giving the state authority to cancel contracts made with customers outside the state on the presentation of evidence that the intrastate customers are being neglected or overcharged. But these differ from the Maine and West Virginia laws in that they might be attacked as interfering with interstate commerce. In support of this, Attorney J. W. Heintzman of Cincinnati, who has made a study of the statutes governing the operations of public utilities, makes this statement:

"An electric light and power company case holding that a state cannot regulate the rates charged by a local electric corporation for current sold to a foreign corporation for use in another state and delivered at the state boundary, although the rates of local customers may be affected by the inadequacy of the contract rate under which the current is being delivered

to the foreign corporation is that of the Public Utilities Commission of Rhode Island *v.* the Attleboro Steam and Electric Company, reported in 273 U. S. 83."

But I—meaning Me, the highly personal and biased ego—am not particularly interested whether these laws are constitutional or not. When I was younger and more trusting my attitude was different. I must have been the answer to a lawyer's prayer in those days. If a law was constitutional it seemed apparent to me that it was the expression of the finest minds and the most unselfish patriotism. Anything that could get past the Supreme Court had the hall mark, or so it seemed to me. Nowadays I'm always belittlin.' Consider, for example, the action of the Interstate Commerce Commission recently in proposing to take from the rich railroads to give unto the poor. I have no doubt that this proposition is as constitutional as Rhode Island, but what I want to know now is why they hanged Robin Hood.

IT is the effect and the practicality of the laws forbidding the exportation of power that I have been considering and not whether they are legal or not. From the fact that neither in Maine nor in West Virginia has the right of the state to control its water courses been attacked it may be assumed that it is constitutional. The fracas makes me think of something that happened in Washington, D. C., the other day. An earnest policeman was having a perfectly terrible time with traffic. He had been swinging his club and blowing his whistle and waving right and regulating left until the cars were packed around him like bees on a

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honeycomb. Not one of them could move. The policeman stood silent and puzzled. Then a man worked his way to him:

"I used to be a traffic cop in New York," said he. "I know all about this sort of thing. If you want me

to, I'll help you."

"I wish you would," said the unsuccessful regulator.

The other took him by the arm and led him to the curb.

"Now," said he, "you just sit down and let them alone."



How the Candidates Stand on the Utility Issue

(As recorded by the "World's Work")

HOOVER	"I am firmly opposed to the government entering into any business, the major purpose of which is competition with our citizens. . . . The remedy for abuses in the conduct of the power industry is regulation." [1931]
ROOSEVELT	"We have permitted private corporations to monopolize the electrical industry and sell at the highest rates. . . . Cheaper electricity in the home must, of necessity, depend upon development by a public agency." [1930]
BAKER	"Progressive opinion does not believe that all our water powers should be added to the private fortunes of the privileged classes." [1925]
SMITH	"The new order calls for development by the state or nation, with ownership and control, of great water powers, in the hands of the people, their rightful owners." [1928]
RITCHIE	"I am for the irreducible minimum of legislative interference in every field of human effort, including the utilities. Our detours from this principle are already too many. There should be no more." [1931]
PROGRESSIVES	"Progressive opinion demands that the people of cities, towns, and states shall have the right to engage in the production of electric power by their own determination in orderly procedure at the polls." [1931]

Remarkable Remarks

"There never was in the world two opinions alike."

—MONTAIGNE

DEMPSTER MACMURPHY
*Vice president, Middle West
Utilities Co.*

"Rate reductions are spot news to the nth degree."

RUDOLPH SPRECKELS
Capitalist.

"Red ink has become a far greater menace to capitalistic rule than the Red flag."

GEORGE E. WHITWELL
*Chairman, Pennsylvania Utilities
Merchandising Committee.*

"In every four families in the United States, there is one person who is an owner of utility securities."

JESSE H. METCALF
U. S. Senator from Rhode Island.

"One seventh of the adult population of the country is supported wholly or partially by taxation. And the number is increasing daily."

THOMAS F. CADWALADER
Publicist.

"The first thing the phrase 'general welfare' means to Congress at the present time is the creation of a lot of offices and bureaus for the expenditure of public money."

I. MAURICE WORMSER
*Professor of Law, Fordham
University.*

"Courts should run continuously to get cases out of the way. They should be held to render the same degree of efficiency as an up-to-date public utility corporation."

MORRIS LLEWELLYN COOKE
Engineer and publicist.

"Perhaps my most fundamental reason for being opposed to public ownership is that government with us seems to have at the present time enough to do that is undigested."

GEN. JAMES G. HARBORD
*Chairman of the Board, Radio
Corporation of America.*

"The regulation of interstate commerce has been the vehicle which has brought the Federal government into our daily lives to an extent not only not contemplated but actually forbidden by the Constitution."

OSWALD GARRISON VILLARD
Editor.

"If I were dictator I should enormously lighten the burden of taxation by having the profits of public utilities go into the pockets not of stockholders, but of the communities which operate them, or into a general treasury."



THE RESPONSIBILITY OF THE ACCOUNTANT IN Auditing a Utility's Books

The Views of a Country Banker

In a preceding number of *PUBLIC UTILITIES* FORTNIGHTLY the Country Banker told, in his article "What John Bull Can Tell Uncle Sam About Audits of Utility Companies," how the British stockholder employs public accountants who are responsible to *him*, instead of to the directors. In the following article the author discusses the proposed application of this policy in the United States, especially in the case of utility holding companies.

As told to
FREEMAN TILDEN

THE question as to whether the auditing of a public utility company's accounts should be done by accountants selected to represent the stockholders, or those selected by the management, is a delicate one, and one calculated to arouse resentment in the mind of many a manager who knows that he is perfectly honest, and can't see why that fact isn't enough.

In this article I shall not deal with the matter of dishonest management, or dishonest audits. The laws of the criminal code can take care of such, and the laws will, never fear. I am concerned with honest, alert, responsible-minded management of our public utility companies; and with ethically minded accountants; and with "reformers" like myself who are not trying to weaken the hands of their

management, but who want to strengthen them against the certain attacks that are to be made, fairly and unfairly, upon our big corporations.

In this latter category is, for instance, F. J. Lisman, the New York banker. He is far from being what we call a "reformer," but he has believed for years that the interests of all concerned can be best served by having the auditors appointed by and responsible to, the stockholders of a corporation. He is the chairman of a committee of the New York Chamber of Commerce, to inquire into the matter. I understand that the committee has not yet met, but will get together soon.

MR. LISMAN realizes that the idea is not a palatable one to most executives. It hurts their pride, at

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first thought. It is as though one said that they were not to be trusted. They find it difficult to believe that the change, fundamentally, would be beneficial to them. It would put them, so far as auditing is concerned, in that much desired position for a wife of Caesar—above suspicion.

To put it flatly, (the repugnance to any new idea aside) the proposal here made should not make any management squirm that has not been guilty of improper practices in making statements to their stockholders. And I reiterate that honest management, when it once overcomes its wounded vanity, should welcome the change.

I should be inaccurate if I stated that there is, at the moment, any large outcry for either the change in the responsibility of the auditors, or any radical changes in the methods of finding balances. The American stockholders have been very dumb boys, and they will be almost the last, as a body, to propose any changes in corporate management worth while. For the very reason of their laziness and ignorance, when they feel aggrieved and strike out, they strike blindly, and nearly always hit in the wrong place. The body of men capable of cleaning house are the management themselves.

A FEW years ago, when a seventy-million-dollar company was formed, a New York banker, greatly interested in following the British plan of audits for the stockholder, by his representatives, proposed that this salutary change in practice be included in the by-laws of the new corporation. Those present looked at each

other quizzically and said nothing. At a subsequent meeting it was again proposed. Finally a member of the group drawled:

"We've never done that sort of thing. Why start anything?"

And it was not started.

THE factor that has, more than any other, run many of our public utility corporations, and especially holding companies, upon dangerous ground, is that the management has been, for a number of hectic years, committed to the program of selling stock, or at least laying the groundwork for the successful sale of stock. Now, there is nothing immoral in this; and it must be said that nothing so pleases the stockholder as to discover that his company has made a profit. With as much good faith and honesty as you please, however, it is the temptation of management, when it wishes to make the best possible market for its stock, to show the greatest possible current profit. In order to show the greatest operating profit, statements have been drawn that do not present the true picture to the stockholder. It is not a question of dishonorable intent; it seems to me a question of the best ultimate judgment, and entire fairness to the stockholder; and it may be also a question of how the thing would look as it appeared in a possible analysis before a congressional committee that was already loaded for bear hunting.

IN the questions that follow, I am, of course, referring to holding companies in the utility field and not to operating companies that are under the regulation of state commissions. The audits of the latter are

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controlled by the commissioners, who, as far as I know, have all adopted and employ a uniform accounting system. The result of this is, in one particular, curious: even if the operating company were not disposed, for the sake of heightening the desirability of its stock, to throw all possible stress upon handsome earnings, the state commissions want that result with their own idea of discouraging the companies from asking higher rates for service. Consequently, some of the very conceptions of allocating losses and expenditures, which govern the audits of operating companies, and result, as I see it, in presenting less than the true picture, are perpetuated by the regulatory commissions.

If you ask me what is to be done about this, I pass. But it is beside my present discussion. The activities that are probably to come under scrutiny in the utility field are those of holding companies, and of operating companies, not as regards their intrastate operation, but only as to their financial relations with the parent ownerships.

As to holding companies, then, it occurs to me to wonder whether a firm of auditors appointed by the stockholders and responsible to them, would eye with satisfaction to allocation

of losses in operation—of a given company in a given year—against prior earnings that have already gone into surplus account? Does the stockholder get a true picture of his company's condition when this is done? Is it not dangerous ground? If I am not mistaken, Lord Kyslant fell down just such a flight of stairs. The stockholders of the Royal Mail Packet Company were, in the opinion of the court, fraudulently prevented from knowing the whole truth about their company, and were made to believe that there had been a profit in a certain year's operation when there had been an actual loss.

You may well ask, at this point, how that could happen in England, when the auditors were appointed by the stockholders themselves? I shall come to that point later. But leaving fraud entirely out of the question, is it fair accounting? Should not the most immediate purpose of a balance sheet be to present the facts as they are, to show the stockholder a true picture, rosy or indigo, of his company's position?

If the cost of raising money by the sale of stocks or bonds, and the interest on construction costs when new plants are being built, are charged to capital account, does that give the stockholder a true picture when he reads the statement?



"As to holding companies, then, it occurs to me to wonder whether a firm of auditors appointed by the stockholders and responsible to them, would eye with satisfaction to allocation of losses in operation—of a given company in a given year—against prior earnings that have already gone into surplus account? Does the stockholder get a true picture of his company's condition when this is done?"

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Is it proper, or would it be considered proper by such stockholders' representatives, to charge against capital account the salaries of an engineering force, and others, while they were engaged upon new construction? I realize that there are debatable points in these matters. But the point being, that to show good earnings, it is likely that human nature will shun the current expenditure in favor of the capital account, and that the auditor who is a company employee or a director, or a "dependent" auditor, will naturally (where no absolute dishonesty is apparent) take the sanguine view of the procedure—the best way to deal with the matter is the one in which the stockholder would have the clearest possible knowledge of what were really the net earnings for any given year.

Does that sound too romantic or idealistic?

I ask why, in a statement to stockholders, the exact nature and the amount of stock holdings of a company should not be disclosed on the balance sheets? How can the stockholder look through the frosted glass of "current assets" and see what reposes behind it?

They began—I mean, our corporations did—by having Liberty bonds thrust upon them during the World War, whether they wanted them or not. Then, the basic idea being assimilated, they began to buy stocks and bonds of other companies; it soon followed that they bought their own stocks, when judgment dictated such a course. There may be, of course, no objection to this whatever: the point is that if the stockholder does not know what stocks and what bonds

his company owns, he is in no position to know whether his company is wisely guided in this respect; and some of us are beginning to think that the spot to place this vital information is on the balance sheets.

How far would an auditor appointed by the stockholders of any corporation permit the item "Miscellaneous," for example, to embrace unprofitable operation occurring in subsidiaries?

Suppose a company fails with a large percentage of accounts receivable; would the fact that the audit has not been independent suggest a reason why such a condition existed?

I could rattle on a long while with such examples, but they all, in truth, point in the same direction. It all comes down to this: that since many of these instances in constructing balance sheets are on debatable ground—not so much a question of right or wrong as of desirability and ultimate policy—the auditor who is not independent of the management of a utility corporation will naturally incline to view things in the same way as his superiors of the organization; to wit, that the current year's earnings should look as juicy as possible.

And this, my friends, is the way toward disaster when bad times come; and the way to trouble when you get on the witness stand, and the inquisitor hates you!

I HAVE talked with several of the very highest grade accountants, men whose ethics are high, but at the same time have a ripe understanding of the needs and rights of modern business. Almost to a man the accountants are in favor of independ-

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ent audits. They are a close-mouthed crew, these accountants, and never like to indulge in what might be considered loose talk. Yet one of them has recently said, in an address to brother workers:

"The accountant must be free to state what he believes to be the facts. This suggests the undesirability of any dual relationships, such as acting as auditor and at the same time holding any position of direct relationship to the client . . . even as stockholder of the corporation audited."

The skilled American accountant is a high-grade man, and his acquaintance with American methods of business has made him probably a technical superior to his British cousin, who, nevertheless is much more swagger a gentleman—a *Chartered Accountant*, if you please!—and struts a top hat and an almost pontifical countenance. I asked one of our skilled men how it was that the auditors, acting for the stockholders in the clammy Royal Mail-Kyslant case, passed a statement which was declared fraudulent in intent by the English court. He replied:

"Because the lordly Chartered Accountant cannot see the forest for the trees. He is snowed under by a mass of details that with us are handled by the testing-and-sampling method—leaving our men free to grapple with the real fundamental principles of the proposition. Your British accountant in the Kyslant fraud was no doubt perfectly faithful in his technique, but his technique did not embrace the slightest suspicion that a rabbit was being taken from a hat."

Hence, the American accountant believes that with his more modern

grasp, his broader-gauge inlook into big business affairs, if he could unite with this the perfect independence of the British accountant, not only would his conscience be less assailed, but he would be of greater service to the man he finally must serve—the owner of the stock.

I SAY all this with the best of will toward our public utility managements. I appeal to them to make this change in auditing authority because, first, they are about to be put on the rack, charged with the heinous offense of being successful; second, because, for good or ill, they *have* strained many debatable points for the purpose of showing the best possible earnings—and that fact will surely be used against them; and third, because the public utility stands in a semi-fiduciary position toward the public, and must not only be entirely and starkly honest, but must be above suspicion.

The railroads have been great sinners in the matter of audits. Fancy an auditor becoming president of a railroad! It happened. But the railroads are down on their thin soles, and Congress will not only not harass them, but may be very solicitous about them. The industrial corporations, many of them, have performed left-handed magic in their balance sheets, and many a decent accountant has put his name to a statement that he didn't quite like; but there will be little disposition to remember that in Washington this winter. There remain—the public utilities!

A word to the wise is sufficient, I hope.

What Others Think

The Conflicting Views of the Liberals Toward Our Economic Problems

BUSINESS interests in America, particularly the public utility interests (because they have already fallen under the yoke of governmental regulation) will be interested in the academic controversy which is now going on between the two classes of liberals, as evidenced by various magazine articles written by leading progressives and now being published in the various liberal periodicals.

It appears that our liberal political thinkers, notwithstanding the previous paucity of their total numerical strength, have divided into two camps. One group, including Mr. Edmund Wilson, has given up trying to reform the existing structure of our government and has been converted bodily to the principles of Marx, Lenin, and Stalin. Mr. Wilson believes that liberalism in America has become intellectually bankrupt; that its real thinkers have either surrendered to the Third International or have been seduced by the individual comforts with which a capitalistic society will reward them as a price for their apostasy.

The other group continues to hold the fort of liberal thought. Mr. Lincoln Steffens, who drew the particular fire of Mr. Edmund Wilson, makes a brief but interesting exposition of his convictions in *The New Republic*. He concedes that the liberals in America have been ineffectual and perhaps foolishly idealistic, but he makes the surprising conclusion that their very failures and blunders have perhaps had the effect of arousing the real business leaders of this country to social and political dangers, and that, once roused, such business leaders are better equipped by training

and temperament to solve the problems presented. Mr. Steffens states:

"It is pleasanter, easier, to sit on the fence and contemplate our progress in Russia, watch it work over there, and listen to the Wall Street sentries appraising it right—as they do and as the liberals don't—at its true significance for us; while I encourage younger men like Edmund Wilson and his readers to pick up and bear on the burden here in this our backward country. I can say to them that it was not the boom that knocked me out and it is not the depression that encourages me to encourage them. There are some signs of a direction to mark down and follow. They are in business, not in politics; I see no light in politics. In business, however, in industry which governs politics, there are managers who see and say that with the mass production of machinery, there must be mass consumption which requires higher and ever higher wages for the masses who are, in the mass, labor. There were not enough of these prophets to establish and hold up this buying power, this time. They were defeated, like us liberals, this time. But they say that they are going at it again, next time, and they see in the dark of this encouraging depression that there is great extravagance and waste in their overhead. They almost see who cause and profit by those leaks. It seems to me that the managers begin to see the owners of things and that ownership is the source of our troubles."

Mr. Steffens has some doubts whether such business managers in this country will increase sufficiently in number, power, and insight to carry on and save the owners of business from the dangers of their own economic complacency, but he feels that this is the only movement in America that seems to be moving at all in a hopeful direction.

—F. X. W.

BANKRUPT LIBERALISM. By Lincoln Steffens.
The New Republic. February 17, 1932.

Would More Rigorous Regulation Prevent Private Utilities from Competing with Public Plants?

THOSE who oppose government ownership of public utilities can usually be classified into two groups; first, those who believe that government ownership is wrong as a matter of principle, regardless of the comparative efficiency of government as compared with private operation; and second, those who believe that private ownership is more efficient than government ownership could possibly be.

Now comes Mr. Morris Llewellyn Cooke and gives us an entirely new reason for opposing government ownership of public utilities. He says:

"My arguments against public ownership are largely counsels of expediency, not excluding from this term, however, moral considerations. I do not argue against public ownership because (1) the owning and operating of a power station lies outside the proper functions of government, nor (2) because public ownership is un-American or socialistic, nor (3) because government necessarily does any given job in less workmanlike fashion than if it were done under private auspices. I believe whole-heartedly in the public ownership and operation of power plants at Muscle Shoals, in Boulder Canyon, on the international section of the St. Lawrence river, in the cities of Seattle, Tacoma, Los Angeles, Springfield, and in numerous other American cities where the conditions necessary for conspicuous success are present. This is 'yardstick' public ownership. It is a selective application of a principle as contrasted with its general and more or less immediate adoption.

"Perhaps my most fundamental reason for being opposed to public ownership is that government with us seems to have at the present time enough to do that is undigested. The feverish *tempo* of American life is a constant temptation to slipshod and wasteful work. Naturally government does not escape this influence. It will be easier for us to accelerate the general improvement in the quality of the public service now in progress if we avoid becoming involved in any widespread move to own electrical facilities now claimed to be worth eleven billion dollars."

IN other words, Mr. Cooke implies that our Federal and state govern-

ments are suffering just now from economic indigestion as a result of biting off more private business than they can chew. There is also an implication that when the government's present activities have been whipped into shape, they will then be in a position to take over the operation of the utilities under more auspicious circumstances. Meantime, Mr. Cooke wants the privately owned utilities to be subjected to the most rigid regulation. He makes specific recommendations as to what he considers strict regulation.

First of all, he thinks interstate power ought to be regulated as provided by the Couzens bill. Next, he wants the state commissions to have greater power over holding and affiliated companies, such as is now exercised by the New Hampshire commission. Third, he believes the state legislatures should permit the introduction of prudent investment as a criterion for ascertaining utility rate bases by contract. And finally, he wants it distinctly understood that the commissions ought to get the idea out of their heads that they should function as courts of law. He believes they should be administrative bodies.

IT is difficult to reconcile Mr. Cooke's opening arguments, which purport to manifest his avowed position as opposed to governmental ownership and operation of utilities, with much of his article which is devoted to an analysis of the great things which governmentally owned plants have accomplished. He finds, for instance, that the Ontario governmentally owned plant furnishes service at rates 50 per cent below the American average. He finds that the Cleveland plant accomplished much before it was harassed by competition from a private plant that seemingly had unlimited resources. Mr. Cooke intimates that stricter regulation would have seen to it that the private plant

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would not have such resources at its command.

The Cleveland public plant started out in 1920 by charging a 3-cent per kilowatt hour rate as against the 10-cent flat rate charged by the private plant in that city. Mr. Cooke regards this competition as proper. The private plant, however, tightened its belt, cut rates, and improved service to such an extent that during the subsequent years, Mr. Cooke concedes, the private company has forged ahead in every way while the growth of public operation has virtually ceased.

This sort of competition Mr. Cooke seems to regard as improper and evidence of the failure of regulation up to the present time, which he claims we ought to be frank enough to admit. He states:

"Even a few years of reasonably precise—not to say rigorous—regulation would deprive the utilities of those seemingly boundless resources with which they at times harass us and especially our adventures into public ownership. The unwarranted obloquy which was accorded our taking over the railroads during the War is another 'Stop, Look, and Listen' sign suggesting that public operation never be undertaken on too wide a scale and only when the factor of safety is ample."

The only sort of regulation which Mr. Cooke finds has been at all successful has been that of the steam railroads—which, incidentally, seems to be the only utility industry on the verge of national bankruptcy.

—F. X. W.

A PLEA FOR THE REGULATION OF THE POWER INDUSTRY. By Morris Llewellyn Cooke. *National Municipal Review*. November 1931.

A Survey of the Past and Present Problems of the Public Utilities

THE second edition of Mr. Luther R. Nash's volume on the economic problems of public utilities is a complete revision of the author's first edition published in 1925, and is considerably expanded and greatly improved. The main body of the book is a comprehensive and eminently fair discussion of all of the major problems of utility management and regulation. Mr. Nash's long and varied experience in the design, construction, operation, and management of varied public utility properties thoroughly qualifies him to discuss such problems as franchises, capitalization, accounting, valuation, depreciation, rate structures, and taxation from the standpoint of the practical operator rather than that of the academic student of economic problems. Notwithstanding the author's strong sympathy with the corporations, he has fully and fairly presented both sides of all controversial matters, and refrained from expressing his own views until the final chapter is reached.

The review of the history and development of American utilities, while brief, is thoroughly comprehensive. The chapters dealing with capitalization, rate of return to investors, and on tests of utility securities as investments, add greatly to the value of the work as a textbook for utility official, consultant, or student. While some of the chapters are of particular interest to the specialist, the book as a whole is a splendid compilation of the essential facts regarding the development, problems, and present status of the public utilities, and of the most important phases of the regulation and control of them.

It is only in the final chapter that the author freely expresses his own opinion as to the proper solution of present-day problems. He speaks for the indeterminate franchise. He wisely advocates a flexible system of retirement accounting that will not act as an encumbrance of the property in times of stress. He contends for a rate of return that is high enough to freely attract capital to

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the enterprise, but, where exactness is not possible, for sufficient liberality to insure the highest quality of service. He leans to the use of the investment instead of cost of reproduction as the principal basis of valuation, but vigorously opposes the deduction of so-called "accrued depreciation" in valuation, and argues for full recognition of going value. He makes a strong plea for the abolition of the various forms of special taxes and penalties that were saddled on utilities in the early years of their history.

The chapter on public ownership fairly presents the opposing views, but it is clear that Mr. Nash's years of experience have brought him to the sound conclusion that in general the greatest advances are to be made under regulated private ownership and control.

It is to be regretted that he has failed to recognize the steam railroad as a utility in the fullest sense and subject to the same laws as apply to all other public service corporations.

This volume is a sane, wholesome, and sensible discussion of a group of economic problems that ought to be receiving much more attention than is now given to them in colleges and universities. The book as it is now completed is by far the most complete, comprehensive, and unbiased presentation of this important subject that is available for classroom use in the universities.

—HENRY E. RIGGS

THE ECONOMICS OF PUBLIC UTILITIES. By Luther R. Nash. New York. McGraw-Hill Book Co., Inc. 508 pages. Price \$4. 1931.

A Proposed Public Utility Plank for the Progressive Presidential Platform

CRITICS of our American political economy have been crying long and loudly for a "plan" by which our harassed ship of state might reach once more the peaceful waters of prosperity. Hundreds of plans have been published, yet the critics still cry for more and our conscientious students of political economy continue to turn them out by the basketful.

One of the latest plans suggested appeared in a recent issue of *The Nation*; and it is sponsored by the League for Independent Political Action. One of the most commendable features of this plan seems to be its brevity. It begins with a preamble addressed "To the People of the United States," which alleges that the plan could be realized if there were in control of the next four years' Administration and of Congress, a united third party based not upon haphazard use of power but upon social control. Following this the entire plan takes up only four pages, although it represents the collaborated

effort of over one hundred economists.

There are seven main subdivisions: (1) Unemployment; (2) taxation and the tariff; (3) power and public utilities; (4) agriculture; (5) money, banking, and credit; (6) social legislation and civil liberties; (7) international relations.

The following passage contains the complete provisions of the plan with regard to power and public utilities:

"Private ownership of the power industry and public utilities in the United States has failed properly to serve the public, and resulted in evils intolerable in a democracy. Regulation has failed to protect the public interest and has proved a source of corruption of government, because the profits of the power monopoly and other utility companies are so great as to form an irresistible incentive for breaking down and controlling regulation and for undermining the integrity of government. The public utility companies have established the greatest racket in the world, taking each year from the pockets of American workers at least \$500,000,000 through unfair charges and excess rates. Experience has shown that regulation cannot be relied upon

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to protect the public.

"We propose the following plan of action:

"Federal Operation of Muscle Shoals. Immediate Federal legislation providing for public ownership and operation of Muscle Shoals and other Federal power projects.

"Public Ownership. Federal and state legislation to carry out a program of public ownership and operation of power and public utilities, including immediate legislation to eliminate all present legal restrictions thereto.

"Natural Resources. Legislation providing for the control of coal, oil, and railroads in the public interest, looking forward to eventual public ownership.

"Railroads. The public should take over the railroads and operate them, rather than subsidize them with a dole."

It would probably be presumptuous to question the result of this composite attempt of one hundred odd economists, but the statement about the \$500,000,000 unfair charges is somewhat bewildering in view of available official figures. Since the plan speaks of the money being taken from the pockets of the "American workers," it refers, presumably, to the rates for domestic electric service, and since it speaks of the charges as being "unfair" it intends, presumably, to convey the idea that the \$500,000,000 was the minimum amount in excess of what would otherwise be reasonable charges for service. This presumption is based upon the assumption that the writers of the plan did not consider a reasonable charge for service rendered as a sort of highway robbery.

Statistics of the National Electric

Light Association show, however, that the electric industry received from domestic electric service a total revenue of only \$664,441,200 in 1930. United States census figures for this year are not yet available, but they will probably compare with the N.E.L.A. figures, as they usually have in the past.

If we subtract the minimum of excess, \$500,000,000, from the total revenue received we find that the electric industry should only have received as a fair compensation for its service to domestic consumers in the United States in 1930 a maximum of \$164,441,200, from which it is supposed to defray operating expenses, pay taxes, provide for depreciation, and set aside a reasonable return on its invested property. Inasmuch as the electric industry sold to ultimate domestic consumers a supply of 11,000,000,000 kilowatt hours in 1930, we find by the simple process of mathematical division that it should not have charged more than an average of a cent and a half a kilowatt hour for domestic service.

This average figure, incidentally, is for the entire United States and still it is considerably lower than the lowest rate of the Ontario governmentally owned system with its extraordinary hydro-power advantages. To paraphrase the popular song, over one hundred liberal economists can't be wrong. But it is all very puzzling to the layman.

—F. X. W.

A FOUR-YEAR PRESIDENTIAL PLAN, 1932-36.
The Nation. February 17, 1932.

Will the Utilities Bear the Brunt of Increased Federal Taxes?

THE current hearings of the Ways and Means Committee of the House of Representatives, which is endeavoring to find some painless way of raising more taxes in order to square up the governmental deficit, have finally reached a stage which closely approx-

imates a free-for-all. Representatives of various industries have appeared and delivered themselves of powerful arguments as to why their particular industries should not be taxed, and inevitably concluded with equally powerful arguments as to why other businesses should

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be taxed. There is a growing suspicion, however, that the public utility industries may, as usual, finally be the candidate for increased taxation as chosen by the vote of the representatives of other industries. The situation is reminiscent of the young minister who, upon commencing his duties at a certain church, was warned by one of the elders not to preach against drinking, dancing, or gambling, because he would alienate various classes of the congregation. Finally in desperation the young clergyman asked, "Well then, in heaven's name, what is there left for me to preach against."

The old elder replied, "Preach against the Moabites. They haven't got a friend in town."

It begins to look as if the utilities are being groomed for the position of Moabites, so far as tax discipline is concerned.

THE Treasury Department's original recommendation was to impose a tax on telephone tolls, as was done during the war. A later proposal is to levy a tax of 10 cents per month on every telephone instrument which, it is estimated, would produce \$25,000,000 a year.

There was a resolution introduced to impose a tax of one-half cent per kilowatt hour on the sale of all electrical energy. This proposal was effectually killed in its original form because of certain obvious discrimination, but shortly after the new Secretary of the Treasury, Mr. Mills, suggested a 7 per cent tax on gas and electricity as a desirable method of raising revenue. Taxation against the gas industry by the Federal government will probably depend upon the success of measures to tax the electrical industry.

There have been no suggestions for taxing the street railway industry or other less usual forms of utility service, such as grain elevators and cotton gins. In its present position the street railway industry could look upon the suggestion of increased taxation by the Federal government with downright

amusement if it had a sense of humor.

The leaders of both the electrical and telephone industries made a reputable showing before the Ways and Means Committee. The members of the committee seem to be impressed by the fact that increased taxes are chargeable in their entirety against the operating expenses of a public utility, hence would be passed on directly to a class of people less able to carry the increased financial burden than other classes.

OF course, every business, when it is taxed, attempts to pass the burden of the increase on to its patrons, but in unregulated businesses this is not always possible because of the factor of competition; such businesses themselves, accordingly, absorb in whole or in part the increased levy. A utility, however, with monopolistic territorial rights, can pass the increased tax burden squarely onto the shoulders of the consuming public. The members of the committee seem to hesitate to assume the responsibility for the enactment of such legislation.

In addition to this argument, President F. B. MacKinnon, of the United States Independent Telephone Association, made other convincing argumentative points. He observed that most leaders are agreed upon the proposition that essential industries, including the utility services, should not be handicapped at this time when business is struggling up out of the valley of depression and needs all the cooperation possible from the legislatures.

Additional taxes, therefore, should first be aimed at luxuries, amusements, and other items which might be termed nonessentials. It is an interesting fact that some of the representatives of so-called "nonessential industries" were the most outspoken in suggesting the advisability of imposing increased taxes on the utilities.

—W. R. N.

TESTIMONY of hearings by the Ways and Means Committee of the House of Representatives during the month of January, 1932. Washington, D. C.

Are Chain Stores and Mail Order Houses the Real Beneficiaries of Anti-merchandising Laws?

IT would be a grim joke on the legislators of Oklahoma and Kansas if it comes to pass that the anti-merchandising laws enacted in those two states during the 1931 legislative session should prove to be instigated by the chain store and mail order houses. Such a revelation would also make the various associations of independent appliance dealers, electricians, and plumbers, who fought so valiantly for the enactment of these laws, feel rather foolish if they ever find out that they have been used as cat's paws to rake out of the fires of commercial competition chestnuts of their most powerful competitors.

While this state of affairs has not been conclusively shown to be true, nevertheless a recent address by Mr. W. H. Hodge, vice president and sales manager of the Byllesby Engineering & Management Corporation before a recent division meeting of the National Electric Light Association in Chicago, contains some information that should give the independent appliance dealers pause.

Mr. Hodge said that it was a mistake for anyone to assume that the utilities wished to monopolize the sale of appliances. He claimed that practically all utilities would prefer not to deal in appliances if the public could be adequately served otherwise. He stated that such a general policy would inevitably slow down the pace of development, depreciate the quality and safety of appliances, lessen the building up of the consumption load which is the real concern of the public utility companies. This is a familiar line of argument, of course, and one that is generally denied by those independent dealers who oppose the public utility corporations in their merchandising activities.

MR. Hodge, however, then proceeded to give evidence. It appears

that one of the Byllesby managed companies is the Oklahoma Gas & Electric Company, which was legislated out of the appliance business in July, 1931. The company immediately organized a sales development department to co-operate with merchants and dealers toward keeping up the growth of residential and rural consumption. The new department functioned efficiently during the recent holiday season. It secured the participation of 101 stores in eleven communities. In the majority of towns, however, sufficient independent dealer interest could not be aroused to make the effort worth while. Nevertheless, the campaign was considered a success. A total of 6,183 units were sold at a retail value of about \$28,000.

Mr. Hodge continued:

"Accurate records were kept and a study of the division of business among the various kinds of stores is decidedly interesting. Results show that the chain and mail order stores, representing only 17 per cent of the stores participating, acquired more than 50 per cent of the unit volume, but that the merchandise sold was decidedly cheaper than that handled by the other outlets. Department stores, representing but 9 per cent of the stores, sold about 20 per cent of unit volume at considerably higher prices, while a participation of 29 per cent electrical stores sold only 10 per cent of the units, but substantial prices brought up their revenue to a good figure. Interesting indeed is the fact that hardware and furniture stores combined, representing about 19 per cent of the total stores, sold but 6.5 per cent of unit volume. It was the furniture and hardware people who figured prominently—at least were made to appear so—in the campaign which put the anti-merchandising act on the Oklahoma statute books."

FURTHER investigation along this interesting line of revelation certainly ought to be attempted by somebody, for if it could be shown that the anti-merchandising laws were put on the statute books of Kansas and Oklahoma by the chain and mail order interests, the definite establishment of that fact

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would act as a swift deterrent to further anti-merchandising legislation. After all, the utilities have the plausible argument that they are at least as much interested in building up consumption as they are in profiting from the sale of merchandise. The chain and mail order houses could have only one pur-

pose—the profit from the sale of appliances.

—M. M.

LEGISLATION OR COÖPERATION IN UTILITY APPLIANCE SELLING. By William H. Hodge. Address before the meeting of the Great Lakes Division of the National Electric Light Association. Chicago, Ill. February 18, 1932.

A Way to Mitigate the Dangers of Absentee Utility Ownership

AN editorial in the *Electrical World* recently made a suggestion of more than passing interest. It commented upon the discernible trend toward decentralization of management in the electrical field, as a result of bringing local personalities back into the picture. Back in the supermerger era of the late nineteen twenties the absorption of local operating utilities by foreign holding companies in many instances resulted in a complete change in the complexion of the local utility's board of directors. Most of the local men were let out and thereby the utility lost an element of community contact that, if restored, would dissipate much of the indifference that typifies the public attitude toward utilities.

The editorial writer in the *Electrical World* feels that the movement towards regaining the services of local business leaders ought not to be confined to the reorganization of local operating subsidiaries. He intimates that the development of more local representa-

tion in national affairs of the industry might be a wise move. The editorial concludes:

"Bankers, merchants, and manufacturers intent on the welfare of a community aid much as utility directors to mold the local attitude into that of acceptance and confidence. While public relations are, on the whole, good with respect to local utilities, the national picture leaves something to be desired. Any measure restoring the participation of local men in the conduct of local enterprises would be a distinct contribution in both directions.

"In the last analysis electric service is a community matter which has become nationalized only because of the manifest opportunities for economy afforded by co-ordination of power supply and diversification in financing. In so far as the service preserves a predominant local interest it deserves in its management the participation of local figures who are part of the fabric of the community and can incorporate its sentiment and best business judgment in the conduct of the utility enterprise."

EDITORIAL. *Electrical World*. February 13, 1932.

—M. M.

Other Articles Worth Reading

COMMISSION REGULATION OF PUBLIC UTILITY MERGER AND CONSOLIDATION IN CONNECTICUT. By Clyde Olin Fisher. *The Journal of Land & Public Utility Economics*. February, 1932.

FINANCIAL PLANNING—A MANAGEMENT AND REGULATORY TOOL. By Irwin S. Rosenbaum. *The Journal of Land & Public Utility Economics*. February, 1932.

FINANCIAL PRACTICES OF FEW ENDANGER UTILITIES' CREDIT. By W. C. Gilman. *Electrical World*. January 16, 1932.

MUNICIPAL UTILITIES INCREASE FLORIDA TAX BURDEN. By W. Austin Smith. *Electrical World*. January 30, 1932.

SOME FEATURES OF UTILITY REGULATION. By J. Paul Kuhn, member, Illinois Commerce Commission. *Telephony*. January 30, 1932.

The March of Events

Anti-appliance Sales Laws Unsatisfactory

THE experience in Kansas and Oklahoma, the two states which a year ago enacted laws prohibiting public utilities from engaging in the merchandising business, apparently has not been such as to encourage other states to take similar action, says the *Washington Star*, which continues:

"It has been reported that total sales of appliances in the two states have dropped off about \$4,000,000 and that the principal beneficiaries have been the mail order houses and chain stores instead of the independent merchants who were supposed to be benefited by the legislation.

"In only two of the eight state legislatures now in session have anti-merchandising bills been introduced this year. They are Massachusetts and Mississippi, and there is no indication as yet that the measures stand any chance of passing. A similar effort was made in about a dozen states in 1931.

"A special power rate investigating committee, created by the South Carolina legislature last year, recently made an exhaustive report on the electric utilities of that state and recommended merely that the companies be required to keep separate accounts of their merchandising business. A similar recommendation was made by the New York commission, which has just completed a thorough investigation of the subject of appliance sales by utilities.

"Sales by chain stores dealing chiefly in gas and electric household appliances amount annually to about \$191,500,000, according to a recent report by the Department of Commerce. The 262 chains in the field operate 4,472 retail establishments and employ more than 29,000 persons, who receive more than \$35,000,000 a year in salaries and wages.

"Public utilities operate 219 of these chains and reported sales of \$141,701,699, or about 74 per cent of the total sales.

will be started in New York on April 8th and 9th, according to an announcement made by Morris Llewellyn Cooke, a member of the Power Authority of the state of New York. This movement is sponsored by twelve of "the leading exponents of public regulation in the country," according to the statement. Quoting from Mr. Cooke's statement as reported in the *United States Daily*:

"The movement was accelerated in part by the action of several members of the National Association of Railroad and Utilities Commissioners in declaring in a recent public statement their fear that 'regulation in the several states is being seriously imperiled by the conduct of the affairs' of the National Association. In that statement they further stated that the association 'must change its course' or there was no alternative except withdrawal from membership."

It is stated that letters have been sent to more than 100 persons inviting them to attend the meeting. The sponsors of the movement are listed in the *United States Daily* as follows:

Henry C. Atwill, of Boston, chairman of the Massachusetts Public Utilities Commission; Morris Llewellyn Cooke, of Philadelphia, trustee of the Power Authority of the state of New York and former director of the Giant Power Survey of the Commonwealth of Pennsylvania; Harold Evans, of Philadelphia, former member of the Pennsylvania Public Service Commission; Felix Frankfurter, of Cambridge, Massachusetts, professor at Harvard Law School; John H. Gray, of Washington, past president of the American Economic Association; Clyde L. King, of Harrisburg, Pennsylvania, secretary of Revenue of the Commonwealth of Pennsylvania; David E. Lilienthal, of Madison, Wisconsin, member of the Wisconsin Public Service Commission; Dr. Milo R. Maltbie, of New York, chairman of the New York Public Service Commission, Professor William Z. Ripley of Boston, member of the Department of Economics of Harvard University; Clyde L. Seavey, of San Francisco, chairman of the California Railroad Commission; Frank P. Walsh, of New York, chairman of the Power Authority of the state of New York and member of the recent commission on Revision of the Public Service Law, and George W. Woodruff, of Harrisburg, Pennsylvania, member of the Pennsylvania Public Service Commission.

Forum to Study Utility Control

A MOVEMENT to provide "an adequate forum for the exchange and dissemination of views on regulatory principles and dissemination of views" on the effectiveness of regulation of public utilities by state commissions

California

Tie-line Charges of Electric Utility under Attack

IN the rate investigation of the San Joaquin Light and Power Corporation an attack has been made by C. T. Mess, assistant commission engineer, upon tie-line charges and he has suggested a way by which tie-line costs could be reduced so that the San Joaquin consumers would save a half million dollars, it is reported in the *Fresno Bee*. This amount would be chopped from the Pacific Gas & Electric Corporation's 1932 revenue, says the *Pomona Bulletin*, if the suggestion is accepted.

He told the commissioners that the tie line has improved service for each of the three power utilities involved, the Pacific Gas & Electric, the San Joaquin Light and Power Corporation, and the Great Western Power Company. The present rate was said to have been made by an agreement never formally filed with the commission. Quoting from the *Fresno Bee*:

"Mess testified that in 1931 the bill for tie-line services paid by the consumers amounted to \$1,524,127 and that it has stead-

ily risen to this point since 1927 when it was only \$126,639. The corporation's estimate of the 1932 bill amounted to \$1,118,000, a figure less than 1931 because of early gravity water which will be available to agricultural consumers this year.

"The witness offered the suggestion that the corporation pay a fixed charge of \$10,000 monthly for the tie line in addition to 75 cents per kilowatt per month up to 75,000 kilowatts and for all kilowatts over the amount 85 cents per kilowatt per month with a monthly minimum of \$34,000. These charges were to act as a demand charge while there would be an energy charge of 1.5 mills per kilowatt up to 29,000,000 kilowatts and 1.9 mills per kilowatt for all energy over that amount.

"Based on 1932 estimates, Mess estimated that the fixed charges under his plan would amount to \$120,000, the demand charges \$408,000, and the energy charge \$101,700, giving a total charge of \$629,700, which would be reduced by \$20,000 because of power returned to the other companies by the San Joaquin, leaving a cost of \$609,700 instead of the \$1,118,000 estimated by the corporation."



Connecticut

Commission Power to Alter Contract Rates Denied

THE city of New Haven in a brief filed with the public utilities commission denies the power of the public utilities commission to revise rates covered by a contract with the New Haven Water Company. The brief states that it is doubted that the commission has been given the power to change water rates in New Haven on the ground "they may be changed by arbitration only or in the public interest—not in the interest of the stockholders."

The city opposes claims by small towns that they are discriminated against in favor of New Haven. It is asserted that the "city's contract right to receive municipal water and fire protection service from the company in return for paying a part of its gross tax receipts cannot be disturbed and does not constitute unjust discrimination." The assertion is made that the company must not pass on to consumers in New Haven or elsewhere the cost of this service, but must pay for it out of the stockholders' money. No discrimination, according to the city, exists because higher taxes are charged in the towns

than in New Haven. Nor, it is said, is there unjust discrimination because some consumers pay for water at flat rates, and others by meter.

"That the company is not permitted under the contract to maintain any depreciation reserve," the brief continued. "Even if it were legal for it to maintain such a fund, the company's estimates for future contributions to this fund are too high. Under the contract, the company had no right to accumulate a surplus and, therefore, it, together with the illegally maintained depreciation reserve fund, should be returned to the public by a postponement of the proposed rate increase until these two funds are exhausted.

"That the company's estimate of its required gross revenue for the future is too high. The company has in the past financed itself improvidently and has made improvident investments at the expense of the consumers. The company has capitalized its interest and taxes on a portion of the North Barnford development contrary to its agreement with the city."

The company has filed briefs denying many of the city allegations and also those made by outside towns. The company con-

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tends that its statement for the year 1931 demonstrates that the income of the company under the old rates in New Haven for the entire year and under the old rates in the outside towns for the first half of the

year was insufficient to meet the fiscal requirements by nearly \$210,000. It is said that had there been no increase in the rates in the outside towns, the deficit would have been much greater.



District of Columbia

Congressmen Criticize District Telephone Rates

WHEN Major General Mason M. Patrick appeared before the District Appropriations Subcommittee on February 17th to inform the committee about the financial needs of the commission, members of the committee criticized telephone rates in the District and told Commissioner Patrick something must be done about it in the very near future.

This brought a statement from the telephone company asserting that telephone rates cannot be reduced now without impairing the fair rate of return. We read in the *Washington Star*:

"Changes and improvements in service last year, the company officials pointed out, paved the way for telephone subscribers to save \$101,250 a year. Savings for the last four years, it was said, amounted to \$301,000.

"Although the company's rate of return last year amounted to 7.34 per cent, the average for the last five years, it was said, was 6.42 per cent.

"The return of 7.34 per cent in 1931, according to the officials, was due to the fact that the cost of the dial system installation was removed from the capital account of the company. Contemplated additions to the dial system this year, coupled with uncertain economic conditions, officials predicted, will cut the 1932 return to about 6.5 per cent—a rate too low to enable the company to reduce telephone charges and maintain dividend payments to stockholders.

"A large portion of the \$101,250 savings to Washington subscribers, it was said, will result from the abolition of toll charges on calls to nearby Maryland and Virginia. The savings on this item alone, it was said, will total \$36,300 a year.

"The reduction in rate for handsets, put into effect last May 1st, it was explained, saves subscribers \$49,000 a year, discontinuance of the charge for change in equipment, \$8,000, and reduction in the rate for individual lines connected to residence intercommunicating systems, \$4,450. Several other minor items involving reductions totaling \$11,500 a year, also were reported.

"Among savings in the last few years, reductions in long-distance rates were cited,

showing that the cut February 1, 1929, benefited Washington subscribers by \$68,200, and the reduction June 30, 1930, by \$50,000."

Traction Merger Considered

PRESIDENT John H. Hanna of the Capital Traction Company at a hearing on the traction merger before the subcommittee of the House District Committee expressed the opinion that District traction companies should not be restricted from operating taxicabs on some future date with the consent of the public utilities commission. The *Washington News* states:

"Hanna declared that the companies at present were not contemplating the operation of taxis, but said that, under the merger agreement, they should not be limited to the use of street cars and motor busses.

"People's Counsel Richmond B. Keech, at earlier hearings, had asked that the bill be amended to prevent the combine from emerging in the taxi business.

"Hanna declared that he did not believe that any of the score of changes suggested in the bill were in the public interest. He said it would be almost as well to abolish the public utilities commission if its regulatory power was to be usurped by legislation.

"Hanna said he had no objection to giving the public utilities commission the power to fix reasonable reduced fares for school children, should the present 3-cent fare law be held invalid. He suggested 5 cents as a reasonable school fare.

"President William F. Ham, of the Washington Railway & Electric Company, told the subcommittee that unless the companies would be at least as well off under the merger as without it, they were not likely to accept it.

"Ham opposed suggestion that free transfers be provided between street cars and busses and between busses. He pointed out that under that arrangement, a passenger might secure a free transfer for a 25-cent bus ride on a 10-cent street car fare.

"There is no uniformity in the character of the service," Ham reasoned, "so there should be no uniformity in the charge."

"Assistant Corporation Counsel Roberts notified the subcommittee that the budget

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bureau had approved a substantial contribution to the merger by District taxpayers, in agreeing that the local government should take over the cost of crossing policemen, bridge paving and replacements, and three fourths of the cost incurred for new street paving.

"Roberts pointed out that replacement was

required more frequently on streets carrying car tracks, and that broken surface was more expensive than a solid stretch of pavement.

"Following the meeting, Glass said he expected that the bill would be reported favorably as originally drafted, with one amendment, restricting the companies to the operation of street cars and motor busses."



Indiana

Indianapolis Dissatisfied with Rejection of Rate Cut Plea

MAYOR Reginald H. Sullivan of Indianapolis, according to the *Indianapolis Star*, has announced that the city would file a petition asking the public service commission to reverse its order dismissing the city's rate complaint against the Indianapolis Power and Light Company. The motion would include an offer by the city to submit additional evidence concerning the company's finances. The company, according to the mayor, is in a more favorable condition financially than has been indicated in figures used by the commission.

The commission dismissed the complaint against rates largely on the basis of sworn reports of the utility company and records compiled by the commission's staff. The order dismissing the complaint pointed out that there would be an increase in taxes for the company in 1932, and a reduction in revenue, and the conclusion was drawn that in view of the loss of revenue last year, in order to bring about a reduction of rates, it would be necessary to deduct from the lowest conservative figure which might be found as a value by the commission, an additional

sum of \$4,202,077, the ratio between the loss in operating expenses and the value upon which a rate case is predicated, being approximately 14.3 per cent.

The commission order was preceded by attempts at negotiations for lower rates. When these negotiations failed, the commission made its decision.



System Rate Basis Question to Go to Supreme Court

AN appeal will be made to the United States Supreme Court to determine the question whether a municipality must be considered as the unit in establishing rates for utility service, according to an announcement in the *Indianapolis Star*. A 3-judge court recently dismissed a petition by the Wabash Valley Electric Company which sought to prevent enforcement of a public service commission order which would reduce electric rates in Martinsville 25 per cent. The municipal unit basis was involved as well as the method of allocating to a municipality the property used and the operating expenses of the company.



Maryland

Street Railway Revaluation Plea Goes to Governor

A RESOLUTION has been passed by the Park Heights Civic Improvement Association petitioning Governor Ritchie to remove the members of the public service commission and appoint men "who are fair, impartial, and possessed of a will for the people." This move has been made, according to the *Baltimore Sun*, with a view to revaluation of the rate bases of the Consolidated Gas, Electric Light & Power Company and the United Railways, removal of restrictions against 5-cent bus operations, adoption of literal rules in conformity with the taxicab law, and

making possible the optional substitutions of the zone fare system for the "present unpopular meter system." The *Sun* enumerates further purposes as follows:

"Consideration of revision of lease contracts between the United and the Maryland Electric Railways, a redetermination of depreciation, and additional allowances for the Consolidated's special reserves and its subsidiaries, and an investigation of all inter-company charges, contracts, rentals, and exchange agreements between the Consolidated and its subsidiaries also were urged."

The association contends that the final valuation of the street railway properties at \$75,000,000 was excessive and was made to reconcile within about a million dollars of

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the total par value of all outstanding securities, inclusive of some \$20,500,000 of "practically pure water common stock." It is charged that the appraisal was inflated by some \$26,000,000. The depreciation allowance of approximately \$1,600,000 was also attacked with the statement that this depreciation allowance was the sole cause of depriving income bondholders of payment of interest, and that this was used as the "so-phistical excuse" for the company to maintain its petition for abatement of the park tax.

Chairman Harold E. West of the commission had previously stated that a revaluation of the street railway properties would be futile because no reduction could be ordered in fares even with all possible cuts in the valuation or rate base. The commis-

sion some time ago valued the property and established fares, but the company on appeal to the United States Supreme Court secured a 10-cent fare and obtained rulings on valuation, depreciation allowances, and return which apparently would preclude any fare reduction even with a readjustment for lower prices.

A formal request was made on February 20th by Linwood L. Clark, attorney for the Taxpayers' Protective League, for a revaluation by the commission. At the same time it was suggested that valuation readjustment should be made for other major utility corporations, including the gas and telephone companies. It was suggested that readjustment of values might possibly be agreed upon by applying an index figure to the former appraisals.



Massachusetts

Validity of Telephone Securities Attacked in Rate Case

WYCLIFFE C. Marshall, at a hearing before the department of public utilities relating to the rates of the New England Telephone Company, according to the Boston *News Bureau*, stated that \$2,800,000 worth of telephone securities are null and void because of violations of Massachusetts telephone laws. The *News Bureau* adds:

"These securities include, he said, \$221,022,900 of New England Telephone Company of New York and 99 per cent, or \$2,605,361,538 of the securities of the American Telephone Company of New York.

"The practical result in the present telephone rate case, according to Marshall, is that there is no lawful base of invested property upon which a reasonable rate of return can be determined for telephone service in Massachusetts by the department of public utilities.

"The New England Company has no power, Marshall maintained, to contract in regard to any business matters, and, therefore, cannot lawfully file any binding rates with the Massachusetts Department of Public Utilities.

"Commissioner Goldberg asked Mr. Marshall where would we be if the New England Telephone and American Telephone companies are found to be operating illegally in this state and had to shut down? Marshall replied that this would not happen as steps would be taken to remedy the situation.

"Attorney Grant of the telephone company jokingly remarked that if the telephone company had to go out of business in Massachusetts, Marshall might be hung in effigy, if not in person.

"In reply to a question from Mr. Grant as to how the New England Telephone Company, if it is an outlaw corporation in this state, could file a lower rate schedule which would be valid, Marshall replied that this could be done through the three active controlled companies now operating in this state upon being ordered to do so by the commission.

"Mr. Marshall said that one way out of the difficulty would be for the company to go to the legislature and ask for ratification of the consolidated company."

Bills for Holding Company Regulation Are Considered

THE legislative power and light committee recently had under consideration bills to provide regulation of holding companies dealing in gas and electricity. Control of such holding companies was declared by Attorney Wycliffe C. Marshall to be most necessary as they "have been gouging the consumers and robbing investors." Michael H. Sullivan, of Boston Five Cent Savings Bank, said this was an inopportune time to discuss such legislation, as it would affect bank investments, according to the Boston *News Bureau*.

Sheldon E. Wardwell, at one of the hearings, explained why gas and electric rates have not declined. He said that operating costs for the companies have not decreased in the last two years, neither have wages for men in the operating departments. He admitted that materials have gone down in some instances but said that this had been more than offset by a decrease in consumption.

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Bills pertaining to amendments in the law to facilitate the establishment of municipal lighting plants were also under discussion. The municipal question, according to Mr. Wardwell, is purely academic at the present time, there being no demand for municipal

ownership. He declared that it was doubtful if any municipality could finance a plant at the present time, but if municipal plants do become more general, he wondered who would pay the \$15,000,000 in taxes now paid by private companies.



Michigan

Rate Reduction Movements Are Pressed

A GENERAL movement towards the reduction of public utility rates is under way. Several petitions, some voluntary on the part of state utility companies, and others to be imposed by the commission, according to the *Ludington News*, are to be acted upon. An intensive drive is being made against present rates in Detroit, although an increase in the rates of the Detroit municipal water plant is expected.

Some of the companies have been voluntarily reducing their rates, and Commissioner Kit F. Clardy is quoted in the *Lansing Capital News* as stating that if Michigan companies have been somewhat slower to effect rate reductions than other industries of the state, it has been because they were forced to hold down their rates during prosperous times when nonregulated industry was skyrocketing its prices. He said, however, that the time apparently has come when rate reduction can be made without endangering the financial structure of the utilities or impairing service. The commission is carefully scanning annual reports to ascertain the possibility of reductions by concerns which do not voluntarily offer to cut their schedule.

The city commission of Grand Rapids has been requested to lower rates for water. It has been stated that many residents of that city have allowed their lawns to go unsprinkled for periods at a time in the mistaken belief that this would reduce their expenses, while the service charge imposed by

the city has kept the total bills for water high.

Mayor Frank Murphy of Detroit has announced that the city would press its case for a reduction in rates now charged by electric, gas, and telephone companies. He said that the unemployment problem makes it necessary that all rates be reduced at once. The utility heads have conferred with the city officials on the subject of rate reduction but they have not agreed that a reduction is possible at this time.

Manufacturers in Detroit are demanding natural gas and, according to the *Detroit Times*, a dispute between holding companies is the principal obstacle to a Detroit natural gas pipe line. This paper states that some of the companies are threatening to build factories in other cities unless they can get the cheaper natural gas. The B.T.U. content in manufactured gas is declared to be insufficient in many manufacturing operations. Some of the industrial concerns, it is said, have turned to butane gas but they prefer natural gas which is cheaper.

Hearings in the court's contest over the rates of the Michigan Bell Telephone Company were resumed in Federal court before William S. Sayres, Jr., master in chancery, who is passing upon the question whether a commission rate order is confiscatory. The *Detroit Times* reports that the attorneys for the company have decided to produce numerous witnesses to testify as to underlying data relating to the American Telephone and Telegraph Company and the Western Electric Company instead of permitting the state to have free access to all original records of the company.



Missouri

Company Contests Former Rate Order and Asks Rates for New Gas

THE Laclede Gas Light Company has filed a new motion for a rehearing of an appeal by the city of St. Louis in the 1927 gas rate and revaluation case. The supreme

court last November set aside a commission order granting the company a rate increase of approximately \$600,000 a year, and remanded the case for reconsideration. A motion for a rehearing was overruled by the court on February 6th, but leave was obtained to file a second rehearing motion.

The company attorneys contend that the court was in error in holding that the com-

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mission had not fixed going value properly, but instead had stated the going value as of a previous valuation in 1925 without indicating how much of that amount was included in the present rate base. The company also contends that the court was in error in holding that the value of property retired from service was not deducted by the commission from the rate-making value.

The company has, in the meantime, filed

another rate proceeding with the commission in which it asks for authority to mix natural gas with artificial gas in St. Louis, and for approval of a new schedule of rates for the mixed gas on the therm or heat unit basis. It is estimated by company officials that the new rates would save gas users about \$600,000 a year, based on present use. The commission has started hearings on this application.



Nebraska

Sand and Gravel Freight Rates Present Problems

THE Nebraska State Railway Commission has been devoting considerable time to a problem which has arisen rather acutely in that state in connection with railroad rates on sand and gravel. In addition to the normal amount of building, a total of 1,283 miles of highway have been constructed in Nebraska during the year 1931, and while bids have not been let for 1932, undoubtedly much road building will be done when weather conditions become more favorable.

The railroads have felt truck competition keenly. They are endeavoring to establish rates to meet this emergency, and also wish to be relieved from the absorption of connecting line switching charges. Temporary lower rates were allowed by the commission, but after endeavoring to bring order out of the chaos occasioned by numerous applications filed by various railroads, an investigation was instituted by the commission on its own motion.

Shippers, producers, and railroads have presented an immense amount of testimony and introduced many exhibits, all of which are receiving the attention of the commission preparatory to the issuance of an order. Many phases of the problem have arisen. Rates which favor one producer of sand and gravel are alleged to be prejudicial to others. As the state government is interested in connection with road construction, the tax problem has also been emphasized.



Many Would Be Commissioners

SEVENTEEN candidates for the Nebraska State Railway Commission have filed with the secretary of state, ten Republicans and seven Democrats. The total was expected to reach twenty or more before the closing day, March 3rd. The state primaries will be held on April 12th.

There will be one vacancy on the commission this year as Commissioner John H. Miller's term will expire in January, 1933.



New York

Municipal Power Bills Introduced

AT the suggestion of Governor Franklin D. Roosevelt bills have been introduced in the legislature to authorize the creation of municipal utility districts and to permit the public service commission to authorize such a district to acquire the property of a public utility corporation as a public necessity. Concerning these bills the *United States Daily States*:

"Under the terms of the bill, the district would be created by petition, hearing, and vote of the people and must, with certain exceptions, embrace contiguous territory.

When created such district would be a corporate body and have the power to issue bonds and obligations to purchase or acquire, and to operate or lease, the right to operate public utilities specified in the resolution creating such districts."

The governor, in a special message to the legislature, stated that the intermediate report of the Power Authority had pointed out the necessity of early adoption of legislation which would permit municipalities to buy the cheap electric power to be developed from the St. Lawrence. Last year there were introduced in the legislature two bills to carry out this purpose but they failed of passage.

Legislation has also been asked in a reso-

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lution adopted by the Yonkers common council to empower municipalities to appear before the public service commission as parties to actions involving rates and service of public utility companies. Some doubt exists at present as to the right of municipalities to appear individually at rate and service hearings before the commission. The proposed legislation is intended to clear up all doubt.

Churches Oppose New Electric Rate Schedules

MORE than 150 churches and synagogues, most of them in Brooklyn, according to the *New York Times*, have endorsed a petition in protest against the electric light

rates charged by the Brooklyn Edison Company in its new rate schedule which was placed in effect last July. These rates, it is contended, instead of reducing the former rate, have increased the monthly charges more than 30 per cent for these customers.

A representative of this group asserts there is no reason why the churches should be forced to pay a commercial retail lighting rate when "there are dozens of speak-easies, certainly commercial institutions, operating in Brooklyn under a residential rate."

The representatives of the churches believe that the principle that taxpayers should be forced to contribute to religious purposes, by relieving churches of taxation, should be extended so as to compel ratepayers to contribute, by relieving the churches of paying their full share of the cost of public utility service.



Ohio

Company Relationship Declared to Be Advantageous

ATTORNEYS for the Columbus Gas & Fuel Company, in a brief filed with the commission to support arguments for a 69-cent retail gas rate as opposed to the city's fight for retention of the existing 48-cent rate in Columbus, declare that the relationship between the local company and the Columbia system is advantageous not only to the company but to the customers. It is stated that the aid of the Columbia Gas & Electric Corporation which owns the local company, the Ohio Fuel, and the United Fuel Gas Company of West Virginia, a supplying company, has kept the local company and the city supplied with natural gas.

The contention is made that were it not for the gas supplied from West Virginia, Columbus could not be supplied with natural gas. Most of the gas production in Ohio is north of Columbus, the brief states.

The authority of the commission to fix a gate rate is questioned. This is said to be the pivotal point in the entire case and on this point it is stated:

"Counsel prate about constitutional and statutory protection for the company. Yet they strive to induce this commission to assume jurisdiction which clearly it does not possess—that is, the power to fix a gate rate. This matter has been before the commission a number of times. The city of Columbus has endeavored to have the legislature amend

the law giving this commission jurisdiction, but the legislature has refused to do so. . . .

"If the commission had the power which the attorneys for the city claim, then the Ohio Fuel Gas Company is a necessary party and any gate rate established without that company having its day before the commission would be a mere nullity which the Columbus Gas & Fuel Company could not enforce."

The testimony of city witnesses is strenuously attacked as well as their qualifications. The company in its brief accuses the city attorneys of "delay" and "hocus-pocus" in their handling of the rate case, stating:

"Psychology has always been the principal asset of the showman, the medicine man, and the witch doctor. Hocus-pocus has been substituted for facts."

Springfield Gas Rate Ordinance Is Suspended

THE Springfield Gas Company has appealed to the public utilities commission from an ordinance adopted in Springfield reducing rates from 60 cents to 48 cents per thousand cubic feet. The reduction was prevented from going into effect by an order of the commission suspending the reduction until the case is heard and determined by the commission. The utility company was ordered to post a bond in the sum of \$85,000 pending the proceedings.



The Latest Utility Rulings

Increased Rates to Prevent Water Wastage

USUALLY rates of a utility are increased in order to augment the utility's revenues. Less frequently they are increased to prevent unwarranted rate competition between utilities offering similar service. A recent Indiana case, however, reveals a very unusual reason for increasing rates. The city of Covington asked the Indiana commission for authority to increase water rates. The city was not concerned about its revenues so much as it was about the wastage of water that was going on throughout the city by patrons who flooded fish ponds and fancy fountains on a flat rate basis. It

appears that the city obtains its supply from a number of wells which are more like springs, being only 20 feet deep. With normal and prudent usage this supply would be adequate to meet the needs of the city, but under the low flat rates formerly in effect the city feared that it would be compelled to seek a new source of supply which would involve extensive and expensive drilling of perhaps more than 400 feet. Accordingly, the city asked for increased rates and a uniform meter basis. The city's petition was approved by the commission. *Re City of Covington. No. 10405.*



The Indiana "System-wide" Rate Area Basis Is Denied by Federal Court

A FEW weeks ago the Indiana commission finally agreed to permit the Public Service Company of that state to file a rate schedule on the system basis instead of requiring a separate determination of rates for each municipality served. As a result of this modification of its former policy (the Indiana commission had rejected the system-wide basis on several former occasions), uniform electric rates were effective on February 1, 1932, in 76 municipalities in 24 counties served by the company. Since then, however, one of the previous orders of the Indiana commission entered in 1929, which required the Wabash Valley Electric Company to reduce its rates in the city of Martinsville on the ground that a municipality is a proper unit for utility rate making, rather than an entire system of a utility serving numerous communities, was appealed to the Federal courts.

A statutory 3-judge court in a recent decision by Circuit Court Judge Will M. Sparks, of Chicago, has sustained the 1929 ruling of the Indiana commission. The court observed that all the property in the system of a public utility is not used and useful for supplying service to a particular municipality, and in view of an Indiana statute requiring the commission to value "all the property" of a utility, the commission was obliged to restrict its appraisal to the property used in serving a particular municipality. It was pointed out that any other rule would make it necessary to have all the property of the entire system appraised each time a single municipality or ten or more of its citizens petitioned the commission for a rate revision. The court stated:

"Whether any division of the state, other than a municipality, shall be designated as a unit for the purpose of fixing rates for a utility, is a matter of public policy to

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be exercised by the legislature.

"Until that is done, neither the public service commission, nor a court, can consider any other unit than that which is now fixed by the legislature, namely, the municipality, in establishing a schedule of rates for the services of a utility in such municipality."

Whether the Federal decision in the

Wabash Valley Case will have any effect upon the enforcement of the recent decision of the commission, permitting the system-wide basis to be used in the Public Service Company Case, remains at this time an open question. *Wabash Valley Electric Co. v. Indiana Public Service Commission.*



No Rehearing Allowed in the Laclede Gas Light Case

THE protracted litigation involving the Laclede Gas Light Company and the Missouri commission recently passed another stage when the Missouri Supreme Court denied the motion of both parties for a rehearing in the valuation and rate case decided by the court last November. The case originally started with the filing of increased rates by the company in April, 1927. After the usual procedure the commission in January, 1929, permitted the company to put the rates into effect over the protest of the city of St. Louis, which took an appeal to the county court. The lower court affirmed the commission's report and the city took

an appeal to the state supreme court, which resulted in the reversal of both lower tribunals last November. Judge White, denying the motion for rehearing, stated:

"It is first charged that this court's rulings were in 'conflict' with 'express statutes' governing its jurisdiction, 'to which the attention of the court was not called through inadvertence of counsel.' The writer of the motion 'through inadvertence of counsel,' of course, failed to notice the opinion cited, quoted and construed each and all of those statutes, outlined the court's duty under them, and followed their requirements."

City of St. Louis v. Laclede Gas Light Co.



New Mexico Commission Is Sustained by Its Highest Court

THE supreme court of New Mexico has refused to review an order of the state commission determining that certain existing utility rates are reasonable. The petition for review was brought by an electrical consumer who claimed to have a contract with a utility company to furnish electric current at a certain rate. After the alleged refusal of the company to perform according to the terms of this contract and its threats to discontinue service unless sums were paid in excess of such contract terms, this consumer had complained to the state commission asking for an order requiring the utility to make specific performance of its contract and also to return to the consumer

the alleged sums paid in excess of the contract terms. The commission had refused to take jurisdiction of the complaint on grounds that it had no statutory authority to give relief to individual discriminations practiced by utility companies.

When the dissatisfied consumer appealed for a review of this action to the state supreme court the court sustained the commission's position and added that its own power to review rate making and regulatory orders of the state commission is judicial, extending only to their reasonableness and lawfulness, and resulting only in enforcement or nonenforcement. *Seaburg v. Raton Public Service Co.*

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The Wisconsin Indeterminate Permit Law Is Held Invalid

THE Wisconsin Supreme Court has held the indeterminate permit law of that state, as affecting public utilities, to be invalid where the effect of its operation would allow the owner of the permit excessive operating privileges in town areas outside of municipal limits. The decision reversed a recent holding of a lower county circuit court which affirmed an order of the commission of that state directing a utility company to withdraw from further service in a village in which a neighboring municipal utility claimed to own an indeterminate permit. The court held that the commis-

sion's order was unreasonable, stating:

"If the effect of this decision is to place towns in a field where a free-for-all rendering of utility service by different public utilities may be permitted, we can only say that such is the effect of the law as it exists.

"The time may come—it may even now be at hand—when the occupancy of town territory by public utilities may be so extensive as to bring into conflict two or more public utilities.

"It is, however, for the legislature to note changing or changed conditions and to legislate in regard thereto, as it shall deem wise and in the public interest."

Re South Shore Utility Co.



Interest on Bonded Indebtedness Resulting from Utility Reorganization as an Operating Expense

WHEN the Kansas City Public Service Company recently asked the Missouri commission for permission to file experimental increased rates for street railway service in Kansas City, the Citizen's Civic Club objected on grounds that the income under the existing 6-cent fare of the street railway company was adequate to give a fair return upon the value of the company's property, provided the company was relieved of payment of the

interest on its bonded indebtedness of approximately \$15,000,000. The civic organization argued that this bonded indebtedness was not a proper charge, having been incurred in the reorganization of the company and not representing money borrowed for the purposes of the corporation as it now exists. The commission, however, granted the application of the street railway company. *Re Kansas City Public Service Co. Case No. 7927.*



The State May Not Require a Bond from Interstate Carriers

THE Texas Motor Carrier Act contains certain provisions which make it unlawful for anyone to operate on the highways of the state as a common carrier by motor without a certificate issued by the state commission. This law is applicable to interstate carriers, as well as intrastate carriers. To secure such a certificate the carrier must make an application in writing and must give a bond to secure loss or damage from personal injury or loss of property. Certain carriers refused to comply with these conditions or even to apply for such certificates, and

while operating without them were arrested and jailed by state authorities. The carriers sued to restrain further enforcement of the state act in the Federal court.

The United States District Court for northern Texas decided to grant the injunction upon the grounds that the state may not impose any condition which would require the surrender of a constitutional right. The court held that certain provisions of the act were proper and that other provisions might be construed as improper. Generally speaking, it was said, the state may not